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# The Hermeneutics of International Trade Conflicts: U.S. Punitive Trade Policy Towards China and Japan

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The Hermeneutics of International Trade Conflicts:  
U.S. Punitive Trade Policy Towards China and  
Japan

By Barry Murdaco

A dissertation submitted to the Graduate Faculty in Political Science in partial fulfillment of the requirements for the degree of Doctor of Philosophy, The City University of New York

2016

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This manuscript has been read and accepted for the Graduate Faculty in Political Science to satisfy the dissertation requirement for the degree of Doctor of Philosophy

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## Abstract

### The Hermeneutics of International Trade Conflicts: U.S. Punitive Trade Policy Towards China and Japan

By Barry Murdaco

Adviser: Professor Ming Xia

This dissertation analyzes punitive trade conflicts between the U.S. and two trading partners: China and Japan. Punitive trade conflicts can be defined as trade wars between two states, retaliatory tariffs, or other forms of conflict, e.g. preventing the acquisition of foreign assets or sanctions for an undervalued exchange rate. I will examine several trade conflicts between the U.S. and Japan in the 1980s and several trade conflicts between the U.S. and China from 2001 to the present. This study is situated within a larger debate concerning the resolution of four theoretical "puzzles" in political science. The first concerns the dispute between liberals and realists in IR theory and has been resolved through hegemonic stability theory. The second puzzle concerns the determining force of domestic and international politics and has been resolved through second image-reversed theory. The third puzzle deals with the dispute between rationalists and more sociological interpretations of action and has been resolved by the constructivist paradigm in political science. The fourth puzzle is still unresolved and concerns the relation between ideas and institutions. Attempts to examine the independent causal force of ideas in the "new institutionalism" of sociology and political science have failed, as well as, derived methodological approaches like historical institutionalism and rational-choice institutionalism. I adopt a Habermasian perspective that analyzes the intersubjective construction of meaning in trade discourse. I do this through a kind of "metadiscourse" that categorizes speech acts that constitute trade discourse and reconstruct the "validity claims" they are based on. I argue that systemic demands for trade protection and the deep framing of free trade ideology in the U.S. inevitably leads to irrational punitive policies preventing much needed structural economic reform. Protectionist framing of trade conflicts results in "systematic communicative distortions": 1) lack of alternatives for dealing with trade conflicts other than punitive policies; 2) a divided Left that cannot unify around a substantive critique of right-wing economic policies; 3) the necessity of the construction of an existential threat to the U.S. in order to initiate a response—all of which lead to policies that punish trade partners.

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## **1. Introduction**

This dissertation analyzes punitive trade conflicts involving the U.S. and two of its major trade partners, China and Japan. The focus of the dissertation is mainly on the U.S. and China and will contribute to understanding the complex dynamics involving trade relations, and more broadly, foreign relations between the U.S. and China. I will also analyze trade conflicts between the U.S. and Japan from the 1980s. Conflicts between the U.S. and Japan in the 1980s are generally considered to be the highpoint of trade conflicts between the two states. Analysis of punitive trade conflicts with Japan provides a historical contrast to China and will help contextualize the patterns of behavior generated from these conflicts. In the process of doing this I will apply critical theory to this political-economic context and will demonstrate the usefulness of this theoretical approach in an area of research where it is not commonly applied.

Despite the well-documented history of human rights abuses in China, continuing into the present, and largely censored from the Chinese public, the question of whether China poses a direct threat to the U.S. is not clear. Neoconservatives in the U.S. have already used real dictatorships to construct fake threats in order to justify the preemptive use of force, thus the existence of a brutal authoritarian government cannot automatically be construed as a threat to the U.S. Then there is the issue of trade. Over the last three decades trade between the U.S. and China has exploded, with China quickly becoming the second largest overall trading partner of the U.S with over \$562 billion in total trade between the two states in 2013 (USTR 2014). U.S. exports to China grew by over 7 percent while Chinese imports grew only 3.3 percent. Despite its technological sophistication, the top U.S. exports are agricultural products and scrap metal, while imports of Chinese computer equipment and electronics totaled over \$120 billion, up from \$21 billion in 2003 (Morrison 2014). At the same time, China has emerged as a new potential military rival of the U.S.

Several issues that straddle the line between economic and military conflict have also been growing. These range from cyber-warfare, to export-controls prohibiting certain dual-use technologies for export to China, further intensifying an already growing conflict over property rights, as well as geopolitical conflicts in the South China Sea over energy resources and navigation rights. China is also excluded from negotiations over the Trans-Pacific Partnership (TPP), the largest trade deal ever proposed, and highly controversial for its secrecy. The proposed trade deal, begun under the Bush administration, is the most tangible sign of the Obama administration's "pivot" to Asia, or shift of strategic priority from the Middle East to East Asia, and marks what former national security advisor, Thomas Donilon, calls "the centerpiece of our economic rebalancing" (Donilon 2013). In other words, the creation of this regional free trade zone is, partly, a response to the increased presence of China in the region, a response that some like economist Jagdish Bhagwati see as an attempt to "contain" China (Bhagwati 2013). Despite the increasing interdependence between the U.S. and China, in many regards it seems to contribute more to intensifying tension and friction between the two states.

As China has emerged as a military and economic power on the world stage, trade conflicts with the U.S. have intensified. Although rhetoric against China both in terms of "human rights" and "fair trade" has been passionate since the Tiananmen Square Massacre in 1989, threats to sanction China have normally fizzled and actual trade wars between the two states have been rare, much more rare than between the democratic allies of the U.S. (Zeng 2004). Yet, over the last decade trade conflicts between the U.S. and China have become more volatile, leading to trade wars on goods like steel and more recently solar panels, as well as highly publicized sanctions like the blocked purchase of the Union Oil Company of California (Unocal) by China National Offshore Oil Corporation (CNOOC). Related issues like China's undervalued exchange rate has persuaded Congress to pass several bills labeling China a "currency manipulator" and impose mandatory sanctions to correct this.

Contemporary liberal international relations (IR) theory predicts that "complex

interdependence" should reduce conflict between states, e.g. Oneal and Russett's "Kantian triangle" or Mandelbaum's "Wilsonian triad" of interdependence, democracy, and international regimes (Oneal and Russett 1999, 2001; Keohane and Nye 1977, 1987, 1998; Keohane 1998, 2002; Doyle 1986; Mandelbaum 2006). However, neorealists stress the seeming inevitability of U.S. conflict with China, completely overwhelming the supposed restraining force of international regimes and interdependence. These views range from Mearsheimers' structural theory of rising powers (Mearsheimer 2001) or Huntington's culture-based theory of the clash of civilizations (Huntington 1993, 1996). Where most liberal IR theorists argue that relations with China should continue to be peaceful, most realist theorists believe that serious conflict is almost a certainty (Mearsheimer 2006). The puzzle regarding the future of peace between the U.S. and China could very well be the most important political puzzle of the 21st century.

Relations between the U.S. and China also bring into focus another challenging puzzle for IR theory in global political economy (GPE). Neoclassical theory asserts that free trade leads to higher growth and rising incomes, based on the Ricardian idea of comparative advantage; but, in reality, every state protects its economy to a certain degree. The theory of hegemonic stability argues that under certain conditions states "rationally" seek protectionism as a function of the "opportunity costs of closure" and "social adjustment costs" of open trade, potentially leading to retaliation from other states that are also responding to these political costs (Krasner 1976, Keohane 1997). The theory also asserts that a hegemonic state will normally prefer an open trading regime to a closed one as a way of consolidating power. A declining hegemonic state or a large state that is economically underdeveloped will tend to prefer a closed economy, motivated by the same strategic power calculus. However, this theory since its earliest formulation in the 1970s has had to contend with empirical irregularities regarding theoretical predictions of a state's preference for closure and the historical record. Simply put, according to the original theory put forward by theorists like Krasner and Gilpin the U.S. should

have reverted to a more protectionist stance decades ago, but this has not occurred -- although there have been sporadic tendencies towards protectionism (Krasner 1976, Gilpin 1987). More recent interpretations of this theory have incorporated "new trade theory" to explain the tendency towards protectionism: a reaction of states competing for "positive externalities," and social benefits that derive from certain types of capital-intensive industries (Krugman 1986; Lake 1993). However, despite its sophistication, or perhaps because of its sophistication, it is unclear whether or not states actually make decisions based on the behavioral models of new trade theory. The empirical conditions likely to provoke a state to impose trade sanctions on another state are still largely unknown.

To deal with these puzzles, most IR theorists have argued that analysis must also take into account the social forces that seek to influence the policy of the state, as well as the institutional structure of the state itself. The relationship between the international system and the domestic political structure, cannot be resolved by giving causal primacy to one or the other, but both must be seen as part of an interactive system (Gourevitch 1978; Cox 1981). The most dominant theories are based in public choice theory, relying on a rationalist conceptual ontology shared by liberals and realists, the ontology of "possessive individualism" (Olson 1965; Macpherson 1962). The individualist ontology is supported by the "new institutionalism" in sociology and political science which has led to historical institutionalist and rational institutionalist variants, the latter of which is heavily influenced by the notion of "transaction costs" from new institutional economics, while, historical institutionalism emphasizes asymmetric power, path dependence, and culture (Williamson 1981, 2001; March and Olsen 1984; North 1991; Goldstein and Keohane 1993; Hall and Taylor 1996; Skocpol and Pierson 2001). However, the movement towards institutional context over naked individualism began as a means of correcting the limitations of the individualist ontology, to fill in the explanatory gaps left by the abstract idea of individualism that forms the core of neoclassical theory; once this movement started, eventually, it began to question the epistemic foundations of possessive individualism.

This research paradigm became known as "constructivism" and tended to focus on the intersubjective nature of beliefs and their effect on policy. Instead of taking individualism for granted, analysis focused more on the processes that constitute possessive individualism as an intersubjective belief system. For example, Peter Katzenstein's development as a thinker reflects this path of development: helping found international political economy in the 1970s, to a historically informed comparative approach that influenced the later "varieties of capitalism," to a constructivist emphasis on norms, particularly the constraining effect of norms on international action, and the multiplicity of political identities that develop within political structures (Katzenstein 1978, 1985, 1996, 2012). Rational choice theorists also now look to the importance of ideas as a means of resolving the still lingering ambiguities of game theory which lead to multiple equilibria or several "best possible" choices. Ideas are used to fill the explanatory gap of why choices are made. The desire to "fill the gap" left by other forms of analysis (whether historical, rationalist, or sociological) has tended to be the main motivation for incorporating ideas or "ideational content" into analysis. However, constructivist analysis has generated its own set of puzzles which need to be resolved, namely the relations between ideas and institutions and the causal effect of ideas on political behavior (Blyth 1997; Berman 2001).

In historical institutionalism this leads to an over-determinism in favor of dominant institutions leaving little room for agency and choice, while in rational institutionalism ideas are merely "information" which is a function of the transaction costs of institutions, thus the move towards ideas in the rationalist approach merely replays the movement towards institutions that cannot adequately explain why certain political outcomes come to be (Blyth 1997, 2003). Of all constructivist theorists, Alexander Wendt has most consistently challenged the individualist ontology of rationalism and realism. However, in attempting to redefine the international system as an intersubjective cultural system, where anarchy and conflict between states are merely one constructed role identity among others, Wendt, by his own admission has tended to lapse into a "Cartesian dualism" of idealism and

materialism, holding both as separate and distinct substances, and thus ultimately obscuring the connection between the two (Wendt 1992, 1999, 2006). A more conventional critique is that Wendt still focuses on IR as a system, and in some ways reverts back to a position before the second image reversed. In other words, just as with the limitations of the new institutionalist approaches, the relationship between ideas and institutions are not adequately defined.

To resolve this puzzle, Wendt has recently advocated the "quantum consciousness hypothesis" which resolves the tension between ideas and matter, in effect, by arguing that matter and ideas are one substance, something he calls "panpsychicalism" -- from a philosophical lineage going back to Spinoza (Wendt 2006). Wendt argues that political and social theory are based on classical physics and inevitably leads to irresolvable, antinomic positions. The solution is to base social inquiry on quantum physics that resolves the duality that he sees in his own earlier work. Wendt however has conceded that due to the still evolving paradigm of quantum physics that many of his assumptions are highly speculative and unsubstantiated.

I argue in this dissertation for an alternative approach to resolving the tensions between ideas and institutions with an interpretive approach based on the Habermasian idea of communicative action that analyzes the logic of arguments as a way of understanding the relations between ideas and institutions and the causal effect of ideas on policy decisions (Habermas [1981] 1984, 1987; McCarthy 1981; Risse 2000). This approach is preferred over Wendt's quantum sociology mainly due to the highly speculative and unconfirmed status of controversial ideas like the quantum consciousness hypothesis, although Wendt has argued his approach is not as radical as may appear and is complementary with interpretive analysis. My analysis is not meant to replace, but to supplement, and to fill in the gaps of other theories of analyzing trade conflicts described above, and to that extent will make use of variables generated by this analysis along with my interpretive analysis of arguments.

The common flaw that seems to generate these theoretical puzzles is because theorists tend to



reify the state or actors within the state. To reify, (literally to "thingify") refers to either attributing human characteristics to inanimate objects, or reducing human characteristics to inanimate objects. IR reifies the state by presenting it as an undifferentiated entity that even in constructivist theories appears to have a personality of its own, and tends to a monolithic conception of the state that fails to deal with the complex and contradictory forces which define state policies. Comparativists respond to this flaw but also tend to reify domestic actors and the state by reducing agency to economic self-interest and/or the determining force of the institutional structure. Finally, constructivists attempt to overcome the reification created by the individualist ontology by analyzing identity as a constitutive process, but also reify by failing to distinguish between ideas and institutions, subordinating ideas to institutional tendencies, thus replicating the failings of both comparativists and IR theorists.

The concept of reification has gained wider usage in political science over the last several decades. It originates in the critical Marxism of Georg Lukács and was further developed by the Frankfurt School from which Habermas, a "second generation" critical theorist, developed his own theory. Dealing with the problem of reification has always been the central concern of Habermas' theory that is presented in his theory as the "colonization of the lifeworld." The lifeworld being a phenomenological concept combined with Habermas' appropriation of George Herbert Mead's theory of communicative action, resulting in intersubjective meanings which form the horizon of understanding for social actors (Habermas [1981] 1987). Meaning can only be grounded in the lifeworld if subjects that make up the lifeworld freely accept it; the "colonization of the lifeworld" is when strategic means, i.e. money and power, are used to secure agreement over the "definition of the situation." The systemic imperatives of the political and economic systems threaten to reduce communication between subjects (and citizens) to a strategic means of coordinating action to pursue the goals of the state, or for the extraction, and use of resources.

Strategic action becomes more pronounced as a means of coordinating action as societies

become more complex and differentiated, making it more difficult to secure a true rational consensus, and thus increasing the incentives to resort to alternative mechanisms for coordinating action, again, money and power. To overcome reification, Habermas argues, it is necessary to reconstruct the grounding of arguments by which decisions are made in reference to an intersubjectively constructed lifeworld of objective, normative, and subjective knowledge. The unsubstantiated foundation of arguments that cannot satisfy the pragmatic requirements of truth and validity reveal systematic distortions in communication, and bring to the light the reification or colonization of communicative practices. Only by analyzing the arguments that lead to political action, in this case trade policy outcomes, can one reconstruct the motives of action and determine the beliefs that guide action and decide policy.

The dependent variable in this study will be punitive trade conflicts. Ka Zeng has already examined trade wars between U.S.-China and U.S.-Japan, however her research has some limitations (Zeng 2004). For one, her analysis is limited to the 1980s and 1990s and concludes that trade tensions are less acrimonious than tensions between the democratic allies of the U.S. She bases this assertion on the complementary structure of trade between the U.S. and China and the competitive structure of trade (more intra-industry trade) between the U.S. and its allies, similar to other arguments that examine the effects of international trade on domestic politics (Rogowski 1987, 1989; Hiscox 2001). However, over the last decade trade between the U.S. and China has grown more competitive as revealed in issues like the ongoing trade war over solar panels. Secondly, Zeng limits her dependent variable to trade wars and the effectiveness of threats, but does not examine unilateral tariffs that did not provoke retaliation or other important trade conflicts like currency adjustment issues which were hotly contested issues involving Japan and China at different times (Frieden 1994; Kirshner 1995; Chin and Helleiner 2007; Cline 2012; Easterbrook 2010; Harvey 2014). This study is intended to both broaden the range of trade related conflicts brought under analysis and to offer a more recent analysis of trade conflicts between

the U.S. and China, that also uses Japan as a historical reference point and contrast to China.

My definition of “punitive trade conflicts” takes into account various conflicts, with a trade war being one form. A trade war is, according to Conybeare and Zeng, a conflict between states of an economic nature where one state raises tariffs on another, followed by at least one round of retaliation from the other state (Conybeare 1984; Zeng 2004). More routine customs adjustments according to Conybeare are not trade wars and must also feature an escalation of the conflict to higher levels of the government bureaucracy. Trade wars are distinct from political sanctions, in that they are supposedly economic in motivation, while sanctions are usually enacted specifically to achieve a political goal, usually to punish a political rival. However in reality the political and economic motives of these forms of conflict are highly intertwined, and research in political science despite its recent advances still struggles to determine the causes of these conflicts (Gowa 1989; Findlay and O’Rourke 2007).

Besides trade wars I examine cases where the U.S. imposed tariffs or some kind of limitation on trade without retaliation. For example, although Japan and the U.S. have never engaged in a trade war, this is solely because Japan has never retaliated against U.S. protectionism. In reality, the U.S. on numerous occasions has imposed tariffs, quotas, or negotiated aggressively for "voluntary export restraints" against Japan.

Other forms of trade conflict do not concern tariffs. Preventing the acquisition of foreign assets is not directly a tariff but certainly would constitute a form of protectionism. The most notable example is the prevention of China National Offshore Oil Company (CNOOC) from purchasing Union Oil Company of California (Unocal) in 2005. Finally, pressures for currency adjustment and appreciation were both fiercely contested issues involving both Japan during the Plaza Accord in 1985, and the repeated attempts to pressure the Treasury to label China a "currency manipulator," neither of which had anything to do with tariffs or trade wars.

Analysis of the arguments used to justify punitive responses in these conflicts will reveal that

the foundation on which these arguments rest is not sound, and expose the irrationality of these punitive policies. The deep framing of free trade ideology, its hegemonic status, or its institutionalization, in American public discourse essentially disqualifies most forms of structural adjustment policies more characteristic of the industrial policy of East Asian and Western European economies. By eliminating these more cooperative policy responses from the outset of discussion, policy options are for the most part limited to punitive policies. To the extent there is a call for structural adjustment from progressive reformers, they are opposed not only by the conservative establishment represented by the Republican Party, but also by other members of the Democratic Party. This leads to ideological division within the left, who are unable to form a consensus over the proper policy responses to trade. This lack of consensus also makes the left look weaker and indecisive in comparison to a more unified right (who regularly depart from the ideal of free trade in policy but maintain an ideological consensus). Since the left is forced to take on a punitive stance towards trade partners and exaggerate their threat, this undermines the substantive thrust of their critique of right-wing economic policies. The weakness of the left's critique of the right is most clearly revealed in the necessity of constructing an existential threat to the American way of life that requires a swift and harsh response against foreign trade partners. However, since these threats are always exaggerated, it undermines the rational basis of protectionist arguments.

What is distinctive about Habermas' approach is that it creates a shared standard to judge both normative claims to rightness and empirical claims to truth by analyzing the minimal conditions needed for an argument to be accepted, or what he calls "validity claims." In analyzing the arguments of trade conflicts both normative claims and empirical claims are used to justify sanctions, so a theoretical perspective that can incorporate both is necessary: normative claims to rightness, and empirical claims to truth. In addition, normative claims comprise both moral and ethical statements, where morality refers to universal standard of justice and ethics refer to standards of the "good life" defined by a

political community and relative to that context. For the most part, normative claims relating to trade discourse would fall under the domain of “ethical discourse.” It also allows a more sociological interpretive approach to supplement more empirically grounded claims based in economics. To this extent a Habermasian approach can fill in the gaps left by more conventional methods of analysis while also making use of the most important conceptual tools furnished by these methods by making use of valid empirical correlations and the framing of arguments for sanctions.

I will now elaborate in detail the linkages between these theoretical puzzles and how a Habermasian analysis of trade conflicts can contribute to their resolution.

### **First Puzzle: International Relations (Hegemonic Stability Theory)**

The theory of hegemonic stability (HST) resolves the dispute between "cosmopolitan" liberal thinkers and realist thinkers who emphasize the struggle for power and dominance in the anarchic international system (Cooper 1968; Kindleberger 1973; Waltz 1979). Essentially, the cosmopolitan liberal economic order is established to perpetuate the power of the U.S. and its allies. Gilpin argues that the motives for the Marshall Plan, the reconstruction of Japan, and even the establishment of Bretton Woods institutions: the GATT, the IMF and the gold-dollar standard, were dominated by Cold War thinking for containing communism in Europe and Asia (Gilpin 2002). Lafeber has gone further to demonstrate the linkages between the CIA funding Japan's Liberal Democratic Party (LDP) suggesting a much more direct mode of intervention (Lafeber 1998). Jung-en Woo, and other economic development theorists, have argued that the "developmental states" in South Korea and Taiwan were established under a similar strategic calculus: to prevent the spread of communism by promoting rapid industrialization through exports, institutionalized through a strong centralized state (Woo 1999; Kohli 2004).

The earliest articulation of hegemonic stability is Stephen Krasner's essay "State Power and the

Structure of International Trade" (Krasner 1976). Krasner explains a state's preference for openness in terms of four goals, which he terms the "state power theory." The first is, political power, or autonomy, of the state. The other three goals are national income, economic growth, and social stability. However, Krasner does not adequately define how states weigh these sometimes contradictory goals together, and how to properly evaluate and define autonomy and social stability, leading to several attempts to address these shortcomings. Also, according to Krasner's theory the U.S. should have reverted to more of a protectionist policy, but, for the most part, since the 1980s the U.S. has adhered to the free trade/non-interventionist ideology associated with "neoliberalism" or the "Washington Consensus" -- with notable exceptions that constitute the dependent variable of this study (Williamson 1990, 2004; Harvey 2007).

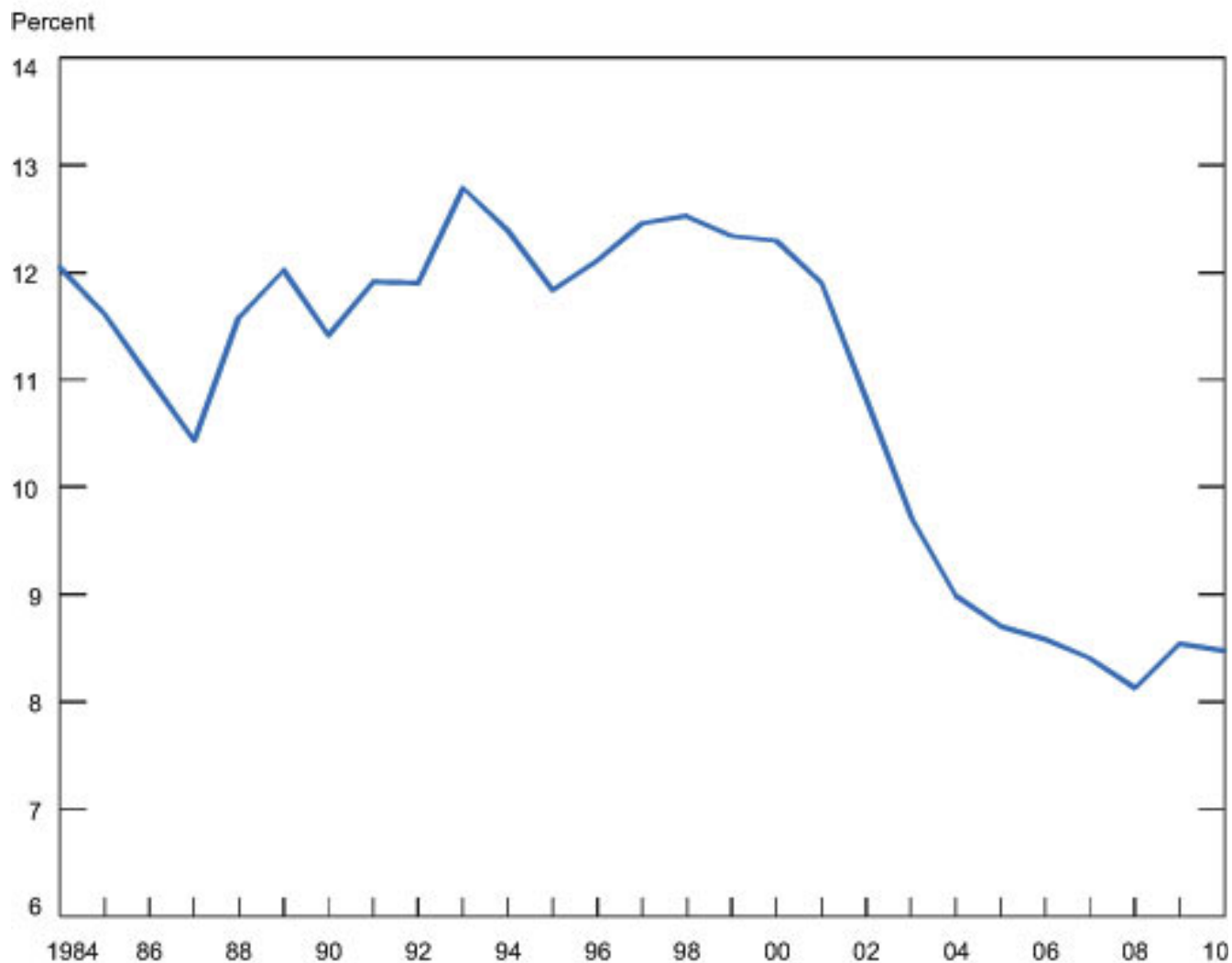
Krasner has argued that one of the determining factors for a state's preference for trade openness is determined by its consideration of the costs of closure, a concept influenced by Hirschman's notion of the "influence effect of trade" (Hirschman 1945). The higher the costs of closing its markets, the less autonomy or power a state has; low costs mean that a state is more likely to close its markets. Normally, larger states with big domestic markets have lower costs of closure than small states who are more dependent on trade. The costs are mediated by a state's dependence upon other states.

A falling share of exports indicates lowers costs of closure for the U.S., since it derives less political power from its trade relationships. In other words, the U.S. has less influence over its trading partners as indicated by the declining share of U.S. exports in the world economy, and as its share decreases it will be more likely to make demands on its trade partners, at the same time, as its partners become more independent of U.S. trade they are more likely to resist these demands, making trade wars and political sanctions more likely. The more economic power one state has over the other, the more it is able to convert this economic dependence into power resources over the state. At the time Hirschman was writing, American exports counted for almost a third of world exports, thus the U.S.

had tremendous influence over its trading partners, and the terms of trade were, for the most part, favorable to the U.S. U.S. export share is now down to about 13% in 2013 (World Bank 2015). This would indicate a vast diminishing of the power resources the U.S. is able to derive from trade. There was a sharp decline in U.S. export share from 1984-88, coinciding with the peak intensity of the U.S.-Japan trade conflict, then rising, then dropping again in the early 1990s, coinciding with a second period of intense conflict with Japan. In the mid-90s U.S. export share dipped again, overlapping with first round of intense trade conflicts with China. This would indicate that as the share of U.S. exports declines, and as its influence over other states is presumably decreased, it will be more likely to risk a trade war with another state or impose sanctions. At the same time, as trade dependent states become more independent they are more likely to stand up to the demands of other states.

Figure [1.1]

## U.S. Share of World Merchandise Exports



Source: Benjamin R. Mandel, "What Falling Export Share Says about U.S. Competitiveness," *Liberty Street Economics*, Federal Reserve Bank of New York, 2012, Web

However, according to Krasner's rationale, a declining export share should lead to a hegemonic state turning away from open markets, yet as already argued this has not occurred. Lake has argued attempts to correct the limitations of Krasner's theory have led to three schools of "hegemony theory," with Krasner being grounded in the neorealist tradition (Lake 1993). Lake argues that neorealist



attempts to address the ambiguity in Krasner's analysis limits the goals of states to a simpler tradeoff between security and wealth. This tradeoff is grounded by the idea of "security externalities" created by trade, making it easier to commit resources for military build-up, as a result of the increased efficiencies gained through trade (Lake; Gowa 1989, 1993). In this case, states may close its markets to another state to slow the military build-up of that state. The assumption of Gowa's theory is that states will sometimes sacrifice some of the gains from trade for security considerations. However, this risks losing the attention to domestic forces that influence the state, what Krasner called social stability costs.

Lake has also argued for hegemony theory based in "new trade" theory which emphasizes the competition engaged in by states for industries that produce "positive externalities," or non-economic social benefits, assuming that states will act to protect the highest producing industries, mainly capital-intensive industries. Keohane argues that new trade theory can better explain what he terms Krasner's "decline-closure proposition" which suggests that states will close its markets when its technological lead declines, and Keohane argues that Krasner's argument implies such a rationale although these insights were not available when Krasner's article was first written (Keohane 1997 p. 155).

Technological decline may be too broad a term to be useful for analysis, but competition over capital-intensive industries can be easier to explain and be incorporated into an analytical framework.

On a related note, China would conform to Krasner's notion of a backwards state, yet since the 1970s there has been increased openness, although this openness is qualified, as Keohane explains:

For China, *selective* openness and manipulation of the openness of others may be a superior strategy to a unilateral policy of either openness or closure. For leading powers such as the United States, conditional acceptance into the world trading regimes of countries such as China—demanding their adherence to established rules as a price of admission—may be preferable to either unconditional inclusion or attempts at exclusion (Keohane p. 157).

Selective tariffs may be levied on certain key industries, thus explaining a more sporadic pattern of

openness and closure than either neoclassical economics or neorealist IR theory can explain. Lake argues that states will compete to promote industries that create large "external economies of scale," as he says:

The possibility of welfare-improving government intervention, however creates a problem of international strategy. An expansion of one national import-competing industry necessarily contracts its foreign exporting equivalent and reduces the externalities enjoyed in the foreign country. As a result, countries will clash over who captures such industries and the external economies they generate....Thus, I predict that countries will develop different trade policy preferences on the basis of their structurally defined ability to compete for industries with significant economies of scale (Lake 1993, p. 474).

Lake further clarifies that capital-intensive industries produce more of these externalities and capital-abundant countries will be more successful than labor-abundant countries in competing.

Lake argues that while political considerations of power and autonomy are important, new or strategic trade theory can better explain a state's preference for openness or closure better than a neorealist emphasis on political influence (Krugman 1986; Lake 1988, 1993). Lake argues that states will compete to capture the positive externalities that derive from certain types of industries. The highest concentration of positive externalities are created by capital-intensive industries. Industries like autos, energy, healthcare, pharmaceuticals, information technology (IT), telecommunications, and other consumer industries all require heavy infusions of capital in order to function.

One way to measure the growth of capital-intensive industries is to measure the growth of capital expenditures (capex) which are long-term expenditures used to create future economic benefits usually to upgrade or acquire fixed assets like property or equipment. The highest capital expenditures are also by the most capital-intensive industries. Over the last ten years, mainly owing to the economic crash in 2008 there has been a decline in global capital expenditures. If Lake is correct in arguing that states will act to protect capital-intensive industries, then a decline in capital-expenditures means increased readiness of the state to protect vital industries facing decline.

Figure [1.2]

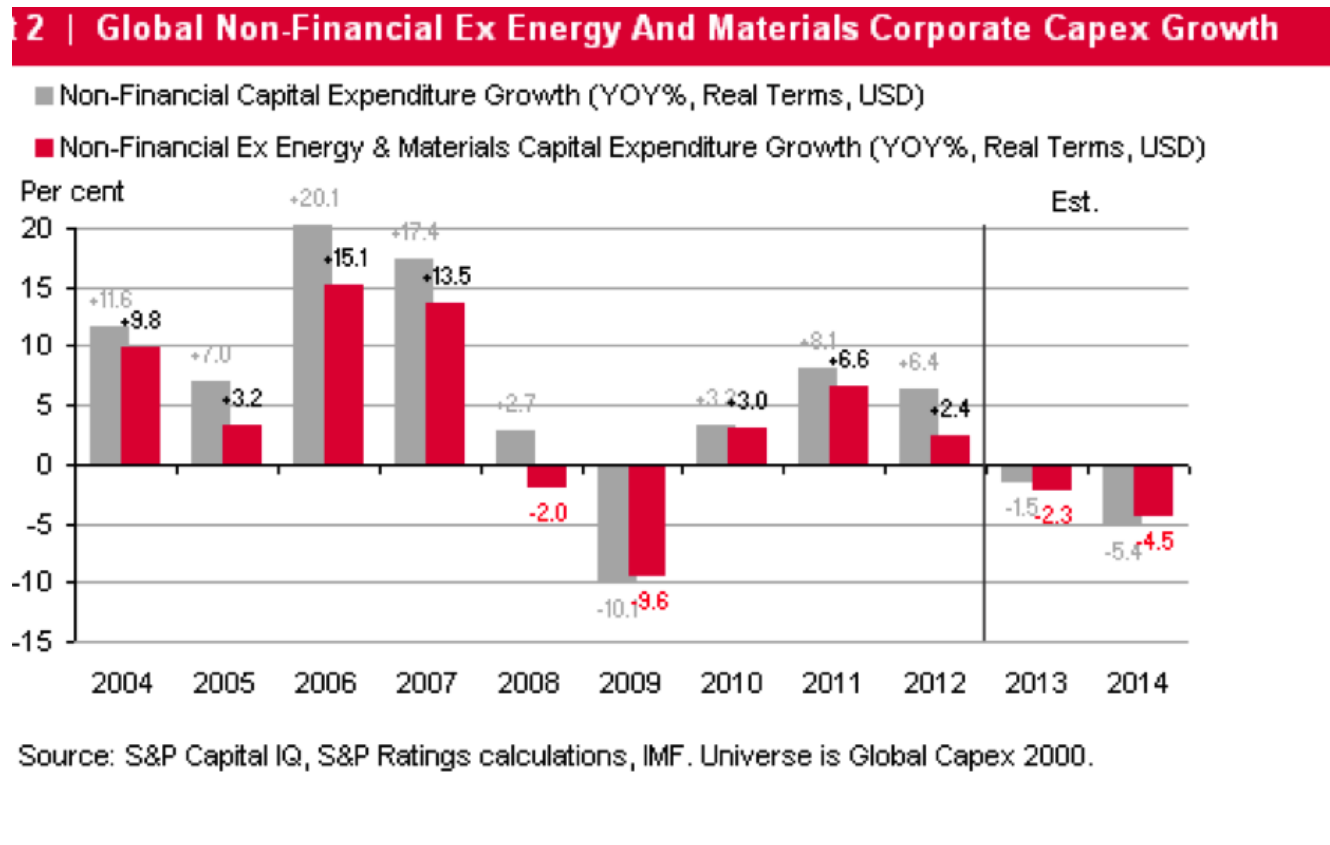
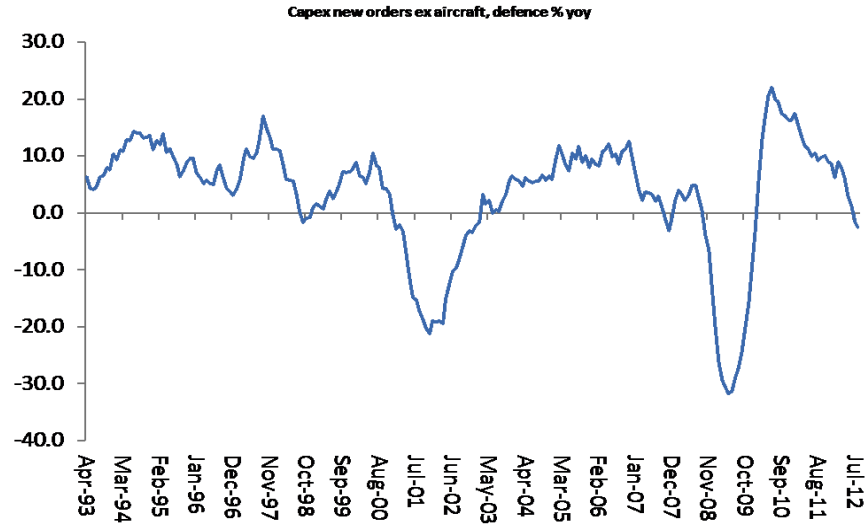


Figure [1.3]



Source: Michael Roberts, "Bernanke in a Hole," *Thenextrecession.wordpress.com*, 2012, Web

However, these systemic economic trends can be further supplemented by analyses of the distinct interest group coalitions and patterns of behavior that develop in relation to these fluctuations. Here the growth of capex can also help determine the structure of trade between states and indicate the patterns of interest group coalitions and preferences by showing the growth of capital-intensive industries that as Lake argues states will be more active in protecting. Zeng argues that the structure of trade between states determines the likelihood of trade wars, even more so than regime type or asymmetrical interdependence (Zeng 2004).

Trade structure is determined by the level of competition between exporters and importers between states. Zeng argues four groups are relevant: affected exporters seeking to increase market access or see their access as blocked, unaffected exporters, import-competing industries, and import-using industries. In a complementary structure, most exporters benefit from trade with the other state and are thus not likely to endorse most trade sanctions, also there is a sizable number of industries that use imports from the state in question and are not to likely endorse sanctions. While there may be some

segments of industry that compete with imports from the other state, their demands for protection tend to be drowned out by the larger number of exporters and import users. Zeng has argued that the complementary structure of trade between the U.S. and China has limited the demands for protectionism and hindered the attempts to translate protectionist sentiment into policy.

A competitive structure develops when there are a sizable number of industries that compete with imports from the other state, and a significant amount of exporters who are frustrated by attempts to gain access to the markets of the other state (thus indicating higher levels of intra-industry trade). Under these conditions, enough interest groups are willing to support sanctions and so states are much more likely to engage in trade wars with other states, even if they are democratic states like Japan or Canada. Since the trade structures of democratic states tend to be more competitive, they are even more likely to get in trade wars according to Zeng. Democratic states also tend to have more developed capital-intensive industries than non-democratic states. Zeng argues the competitiveness of trade structure is more decisive than asymmetrical interdependence that results from the influence effect of trade, because states that are the least dependent on the U.S., like Japan and the E.U., are often the most responsive to threats from the U.S. China, she argues, is less responsive to U.S. threats, and U.S. threats seem less successful not because China is not dependent on the U.S. which it is, and an interdependence which is highly asymmetrical at that, but because the structure of trade with China is less competitive than it is with more developed states.

However, Zeng is vulnerable to what Pierson calls the "snapshot" approach to political science, when she seems to dismiss the likelihood of trade conflicts between the U.S. and China, freezing analysis in a specific moment of time instead of exploring the historical dimensions of her variables, their continuity or discontinuity over time (what Pierson terms the "moving pictures" or cinematic approach) (Pierson 2004). The growth of capital-expenditures in China, as well as the political rhetoric from Chinese leadership and many American commentators, all indicate that China is developing the

capital-intensive industries that compete or will compete with American industries ranging from traditional industries like steel, autos, and energy (fossil fuels or green energy) as well as other emerging sectors like IT, electronics, and pharmaceutical industries in China. Recent political conflicts involving the U.S. and China ranging from conflicts in the South China Sea to the "Great Firewall" and threats of cyber-terrorism, are also conflicts involving the interests of capital-intensive industries, from the oil and natural gas fields in the sea, to accusations that U.S. companies like Motorola and Google are prevented from operating in China, to Chinese subsidies for solar power firms. At the same time the U.S. President's National Export Initiative pledges to double exports between 2010 and 2015, indicates the readiness of the government to increase U.S. market access throughout the world, and increase the declining share of U.S. exports (ITA, 2014). With China being the third largest export market for the U.S., if the President is to accomplish the goal of increasing U.S. exports, China will have to open its markets more to U.S. products.

Table [1.1]

PetroChina Company Limited	China	Energy	50.0	Occidental Petroleum	U.S.	Energy	12.9
Petrobras	Brazil	Energy	38.5	Wal-Mart	U.S.	Consumer staples	12.9
Exxon Mobil	USA	Energy	34.3	Telefónica	Spain	Telecoms	12.5
Royal Dutch Shell	Netherlands	Energy	32.6	GDF Suez	France	Utilities	12.1
Chevron	U.S.	Energy	30.9	Lukoil	Russia	Energy	11.6
Total	France	Energy	26.2	Intel	U.S.	IT	11.0
China Petro & Chem.	China	Energy	25.2	Korea Electric Power	South Korea	Utilities	10.8
BP PLC	U.K.	Energy	23.1	Deutsche Bahn	Germany	Industrials	10.6
Samsung Electronics	South Korea	IT	21.6	Xstrata	Switzerland	Materials	10.5
Toyota	Japan	Consumer discretionary	21.0	Saudi Electricity	Saudi Arabia	Utilities	10.3
BHP Billiton	Australia	Materials	20.8	CNOOC	China (HK)	Energy	10.1
Statoil	Norway	Energy	20.2	BG	U.K.	Energy	10.0
China Mobile	China (HK)	Telecoms	19.8	Fiat	Italy	Consumer discretionary	9.9
AT&T	U.S.	Telecoms	19.7	Apache	U.S.	Energy	9.5
Rio Tinto	Australia	Materials	17.5	NextEra Energy	U.S.	Utilities	9.5
EdF	France	Utilities	16.6	America Movil	Mexico	Telecoms	9.4
NTT	Japan	Telecommunications	16.3	General Motors	U.S.	Consumer discretionary	9.1
Verizon	U.S.	Telecommunications	16.2	Nissan	Japan	Consumer discretionary	9.1
Vale	Brazil	Materials	15.6	Ecopetrol	Colombia	Energy	8.8
Petroleos Mexicanos	Mexico	Energy	15.4	Enel	Italy	Utilities	8.6
Rosneft	Russia	Energy	15.3	Taiwan Semi.	Taiwan	IT	8.5
General Electric	U.S.	Industrials	15.1	E.ON	Germany	Utilities	8.4
Honda	Japan	Consumer discretionary	15.1	China Shenhua Energy	China	Energy	8.4
Petroliam Nasional	Malaysia	Energy	14.9	A.P. Møller - Mærsk	Denmark	Industrials	8.3
Eni SpA	Italy	Energy	14.8	Deutsche Telekom	Germany	Telecoms	8.3
Chesapeake Energy	U.S.	Energy	14.7	Apple	U.S.	IT	8.3
China UtdNtwkComms	China	Telecommunications	14.6	Devon Energy	U.S.	Energy	8.2
ConocoPhillips	U.S.	Energy	14.2	Hitachi	Japan	IT	8.2
China Unicom (HK)	China (HK)	Telecommunications	13.9	China Telecom	China	Telecoms	8.0
Volkswagen	Germany	Consumer discretionary	13.8	Hess	U.S.	Energy	7.8

Source: S&P, “Capital IQ,” *Standard & Poor's Ratings*, Web

As long as Chinese industries are underdeveloped, Chinese consumers will consume foreign products, but wherever Chinese industries are competitive with foreign products, there is a clear preference for Chinese products. It is unclear how the U.S. will be able to radically increase its exports to China or capture larger shares of its market as more Chinese capital-intensive industries develop, even as the per capita income and consumption patterns of Chinese consumers grow larger. Liberals like Stephen Roach makes the assumption that as China develops economically, it will consume more

from the U.S., but this overlooks the fact that as China grows so will its capital-intensive industries and its ability to replace U.S. exports with domestic substitutes (Roach 2014). Faced with this kind of frustration it would seem more likely that the U.S. would be willing to risk a trade war with China in order to increase its access to Chinese markets, just as it would be more likely that China would resist these demands. As demonstrated by Zeng, when exporters support trade sanctions, the rhetoric is more likely to become policy.

Table [1.2]

*Chinese Consumers' Preferences*  
 % "Very/Somewhat usually prefer"

<b>"Usually prefer to buy consumer durables or major appliances/products..."</b>	<b>2004</b>	<b>2006</b>
Made in this country (China)	64%	74%
Foreign-Made	22%	20%
With Chinese/PRC brand names	65%	74%
With foreign brand names	20%	20%

GALLUP POLL

Source: William J. McEwen, "How Chinese Consumers View 'Made in China,'" Gallup, 2007, Web

### **Second Puzzle: Comparative Politics (Second Image Reversed)**

The third school of hegemony theory emphasizes the role of interest groups and domestic actors based on what Gourevitch called the "second image reversed." Second image reversed theory seeks to redefine the relationship between domestic and international structure as an interactive system rather than giving causal primacy to one or the other (Lake 1993; Gourevitch 1978; Frieden 1988; Rogowski



1989). Related to this approach is what Robert Putnam calls "two-level game theory" which models the preferences of states at two levels: negotiations between international state actors, and negotiations between the state and domestic actors, and has been used to model trade negotiations between the U.S. and Japan and China (Putnam 1988; Zeng 2004). Milner argues that the division of government is another mediating factor missing in two level games (Milner 1997). The more divided the government the easier it is to veto, which will make it harder to secure deals on international cooperation, also affected by the distribution of information internally, however her concern is more with international security not with trade issues.

One additional source of theoretical support is the "varieties of capitalism" approach that explains trade preferences of states and firms based on their institutional infrastructure and policies that correspond to these structures (Hall and Soskice 2001). Varieties of capitalism further specify the institutional context in which decisions are made which is overlooked by second-level game theory. For example, Zeng employs two-level game theory to explain the patterns on interest group coalitions that form to influence or block trade sanctions and tariffs (Zeng 2004). However, she does not analyze the distinctive, complementary institutions found in liberal-market economies as distinct from coordinated market economies, and how these institutional infrastructures promote or inhibit the occurrence of trade wars. At the same time, varieties of capitalism can say little about the political motives of these conflicts (Zysman 2007).

The traditional idea of comparative advantage is also challenged by Hall and Soskice who argue that institutional infrastructure can better explain economic preferences and performance, better than theories stressing factor endowments of land, labor, and capital, which take for granted the immobility of capital. In short, in the age of globalization, all states are potentially capital abundant through foreign direct investment thus rendering the traditional notion obsolete. Hall and Soskice argue instead for comparative *institutional* advantage, not so much a departure, but a redefinition of the idea of

comparative advantage to take into account diverse institutional frameworks. This framework, they argue can better explain why some states produce certain products, why certain industries "cluster" together, or why some are more efficient than others.

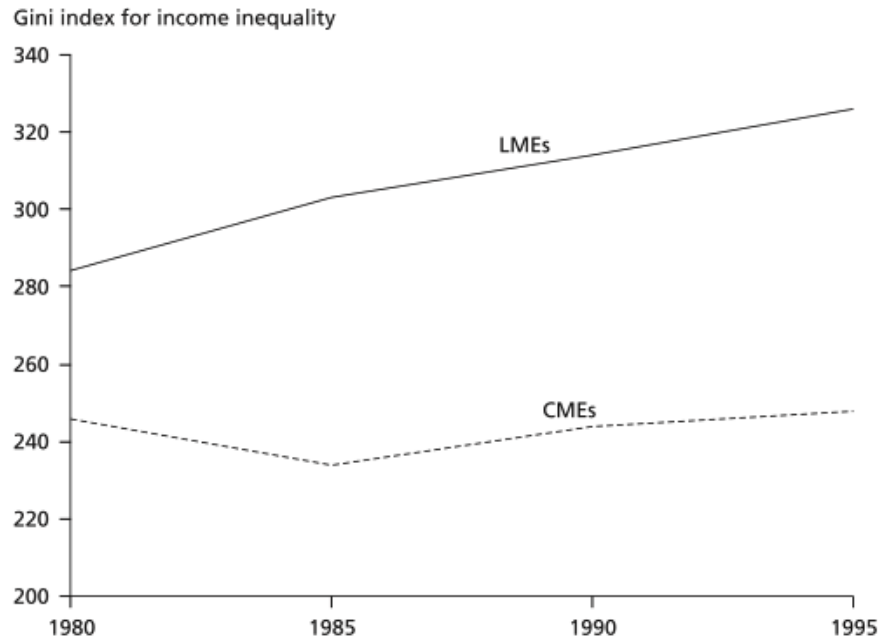
Krasner argues that small states are most susceptible to social stability costs, however Katzenstein demonstrates that many of the small states of Northern Europe are among the most open states because they have been able to develop an institutional framework to offset the destabilizing effects of foreign trade (Katzenstein 1985). This view is also supported by Cameron who argues that the more open the economy is to trade the larger the size of the government, an argument also made more recently by Rodrik (Cameron 1978; Rodrik 1998). The work by Cameron, Rodrik, Katzenstein, and Hall and Soskice all indicate that institutional infrastructure is a crucial mediating variable in determining a state's susceptibility to social instability and the various responses to dislocations and crisis. Where Krasner predicts that small states are the most susceptible to social pressure to close its markets, the social protections afforded by these small states, what Hall and Soskice call coordinated market economies, are better able to manage the pressures from economic downturns. As indicated by their data, coordinated market economies (CME) as a whole, many of which are small European states have more powerful unions, better social protections, and lower levels of income inequality than liberal market economies like the U.S.

Table [1.3]

	CMEs			LMEs			MMEs		
	1980s	1990s	% Δ	1980s	1990s	% Δ	1980s	1990s	% Δ
<b>Industrial relations</b>									
Trade union density	55	53	-4	46	31	-33	33	28	-15
Bargaining coverage	76	76	0	58	38	-34	79	89	13
Bargaining level	1.7	1.8	6	2.3	2.5	9	1.8	2	11
<b>Social protection</b>									
Employment protection	2.3	2.3	0	1.0	1.0	0	3.5	3	-14
Benefit entitlements	29	36	24	24	23	-4	15	31	107
Social spending/GDP	23	28	22	15	19	27	17	24	41
<b>Labor market flexibility</b>									
Part-time employment	18	22	22	16	20.2	26	8	11	38
Avg. hours worked	1713	1633	-5	1810	1831	1	1812	1728	-5
Income inequality	.24	.25	4	.28	.33	16	.31	.31	0
<b>Firm structure</b>									
Average job tenure	9.7	10.1	4	7.3	7.4	1	11.0	10.6	-4
CEO compensation	343	506	48	414	801	93	332	570	72
<b>Corporate governance</b>									
Stock mkt. capitalization	36	61	69	51	96	88	14	31	121
Debt/equity ratio	2.4	2.0	-17	.66	.91	38	2.7	2.1	-22
<b>Earnings and employment</b>									
Real earnings	22	26	18	22	23	4	24.2	27.9	15
Unit labor costs	100	115	15	100	118	18	100	166	66
Total employment	68	69	1	64	67	5	55	56	2

Source: Peter A. Hall and Daniel W. Gingerich, "Varieties of Capitalism and Institutional Complementaries in the Macroeconomy: An Empirical Analysis," *MPIfG Discussion Paper*, 2004, Web

Figure [1.4]



Source: Hall and Gingerich, 2004; Luxembourg Income Data Studies

In the case of the U.S., what Hall and Soskice designate a liberal market economy (LME), there are very few alternatives to responding to different trade patterns and the instability it causes other than to raise tariffs or impose sanctions. Liberal market economies also tend to develop "liberal" welfare states that minimize social protections (Esping-Andersen 1991). Higher levels of inequality among LMEs also reflect the higher levels of inequality in the U.S. In areas like industrial relations and skill formation, the influence of labor unions is relatively weak and there are little incentives for employers to invest in the development of the skills needed for many of the functions required for capital-

intensive industries. Zeng, who takes the U.S. to be the common denominator in all trade wars she examines, overlooks the importance of this. In other words, the structure of trade can provide some insight into the development of trade wars, but trade structure needs to be analyzed in conjunction with varieties of capitalism, which in turn has to provide more depth regarding the political motivations of actors.

For all states, openness to foreign trade can lead to social instability as some industries decline from cheaper imports and a changing economic structure leading to higher unemployment, stagnant wages and incomes, a skills gap among segments of the working classes, and decreased tax revenues, placing demands upon the government to close markets in order to preserve stability, especially in a democratic state where elected officials are held responsible for economic performance. The more unstable the social environment, the more likely the government is to close its markets to foreign competition.

To determine social instability in the U.S. we can look at areas which are specifically affected by international trade: income concentration, resulting in part from a skills gap among industrial workers, the decline of union membership, as well as the increased earnings of finance and other sectors that benefit the most from trade; the gap between labor productivity which has increased in part from the increased efficiency of imports while wages have remained stagnant, even as people are working more hours, as well as the unemployment rate. High levels of inequality, stagnant wages, and unemployment indicate high levels of social instability. These long terms trends in inequality, wages v. productivity, and unemployment are also relevant for trade conflicts with Japan in the 1980s. Finally, one additional indicator of instability reflects the increase in political polarization in the House of Representatives, which tracks with the rise in inequality measured by the Gini index. Polarization indicates instability by reflecting the increased partisanship and unwillingness to compromise between established political factions, which again is fed by increased inequality as indicated by the graph.

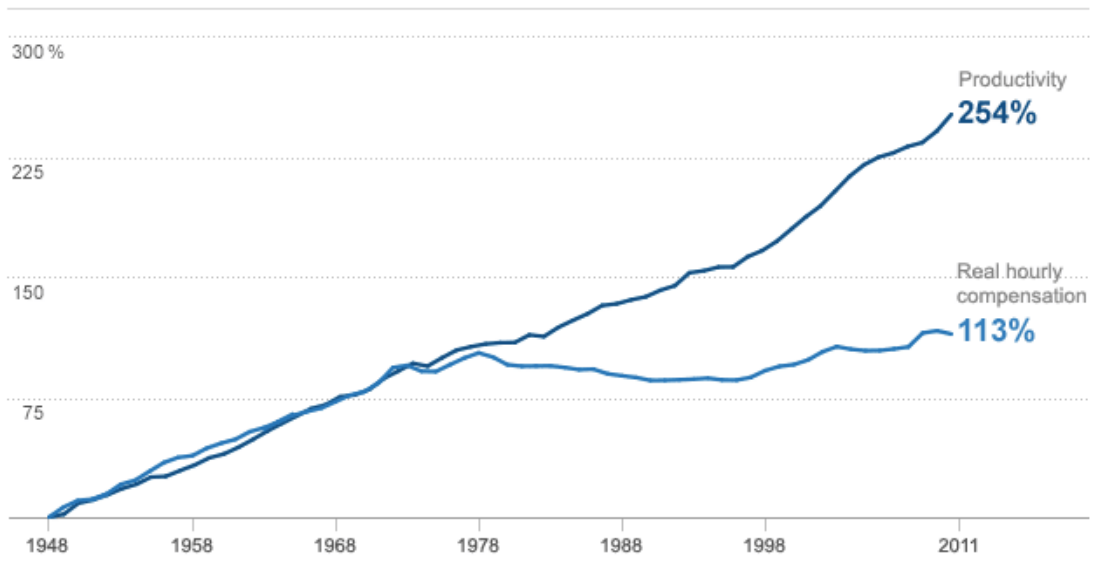
According to this data, social instability is at an all-time high since the end of World War II and in terms of the economic data far exceeds the sources of social instability during the tumultuous 1960s.

Figure [1.5]



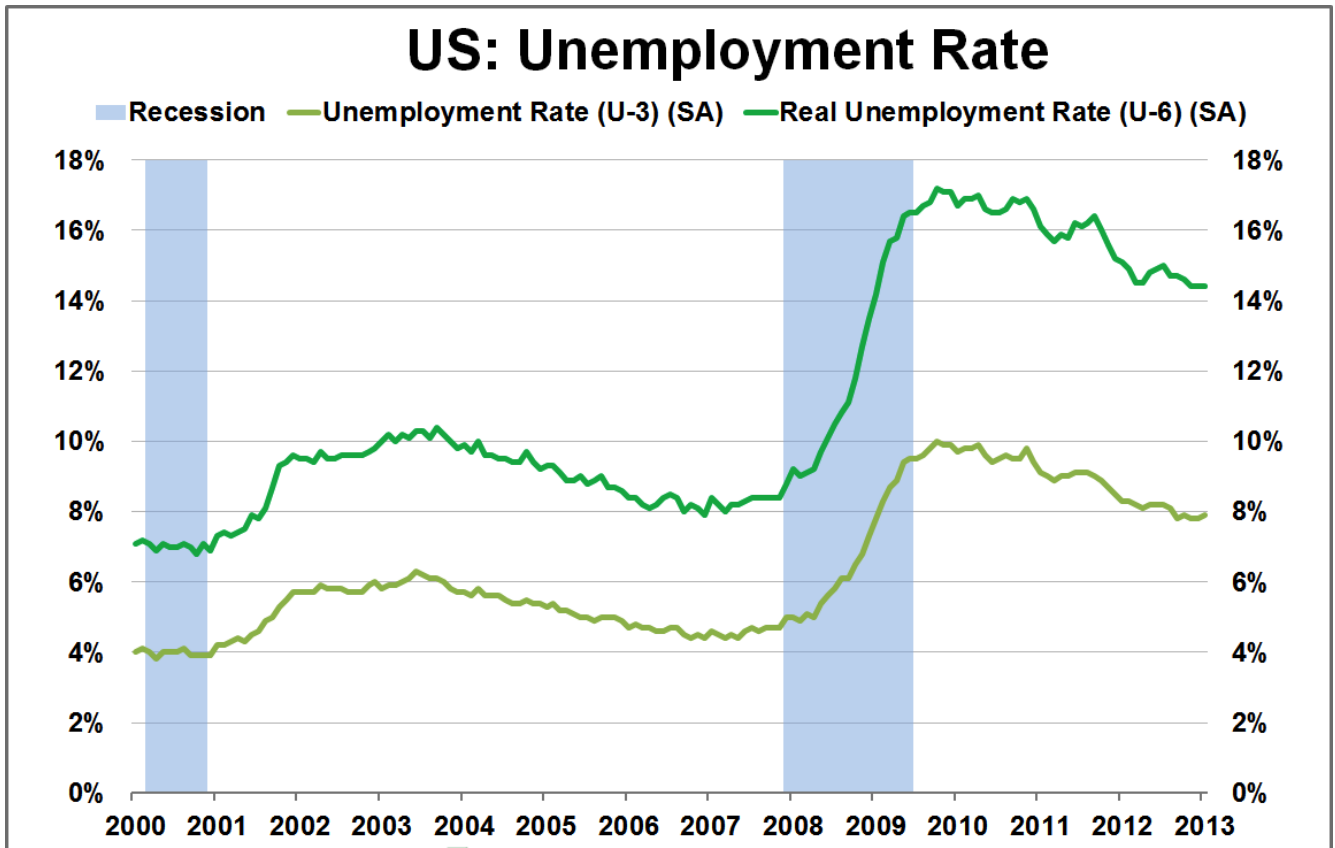
Source: *Washington Post*, "Wonkblog," 2013; Piketty and Saez, 2003, updated to 2012

Figure [1.6]



Source: Economic Policy Institute

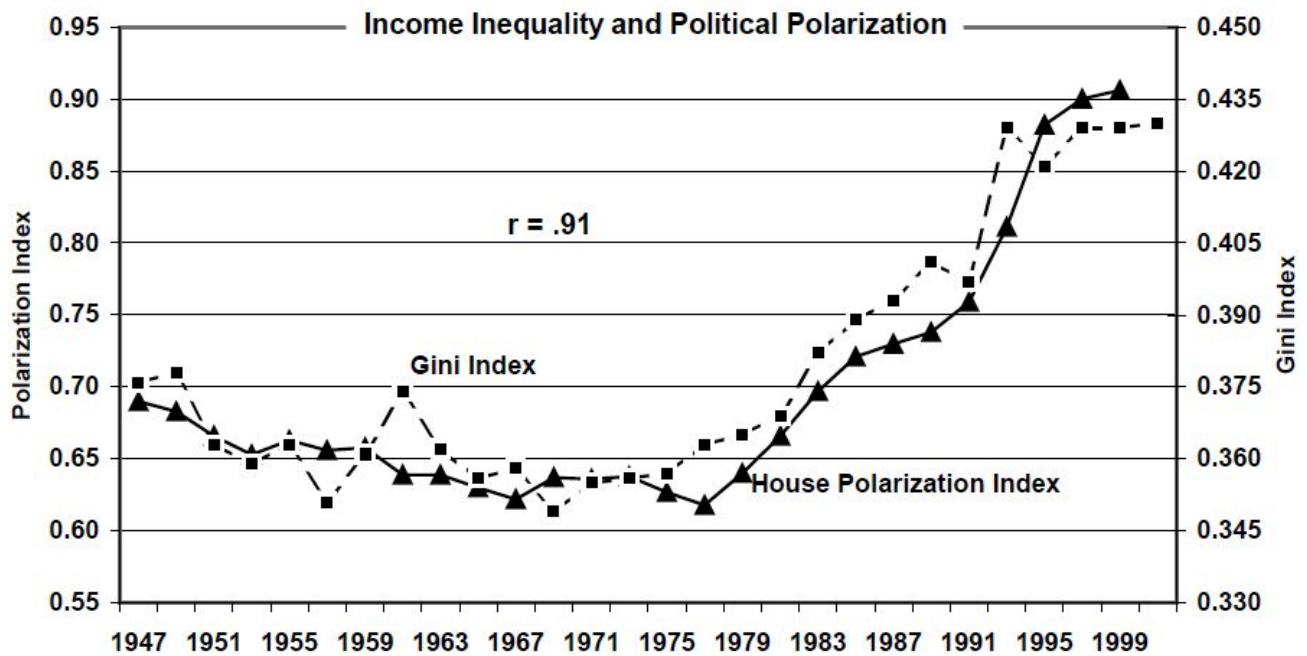
Figure [1.7]



Source: Bureau of Labor Statistics



Figure [1.8]



Source: McCarty, Poole and Rosenthal “Political Polarization and Income Inequality,” *Working Paper #201*, Russell Sage Foundation, 2003, Web

### Third Puzzle: Rationalism and Constructivism

A liberal-market economy may constrain choices to such an extent that seeking protectionism becomes the only rational response to social dislocations from trade, however this does not take into account how trade actors are able to persuade a significant segment of the public and their representatives to support tariffs and sanctions. Furthermore, there are other problems with the varieties of capitalism approach that are not of central concern here, but relate to the historical genesis of these systems in the first place, are they the result of the interactions of firms or a product of social and political struggle? (Pontusson 2005; Streek and Yamamura 2001; Coates 2000). These shortcomings come from the same source, namely overlooking the independent role of ideas in structuring conflict.

Furthermore, liberal theories examine political power and influence in a pluralist fashion influenced by Robert Dahl and Mancur Olson that aims to reconstruct the behavior of elite groups around a key issue and decisions made regarding this issue (Dahl 1961; Olson 1965). The pluralist approach does not take into consideration the agenda-setting function of power, what Bachrach and Baratz originally called the "second face of power," or the power to influence values, the "third dimension of power" (Bachrach and Baratz 1962; Lukes 1974). These limitations have helped spur the rapid development of the constructivist paradigm over the last two decades.

Hall and Soskice attempt to incorporate cultural or normative factors into their analysis, arguing almost explicitly for the lifeworld, "In many instances, what leads the actors to a specific equilibrium is a set of shared understandings about what actors are likely to do, often rooted in a sense of what is appropriate to do in such circumstances" (Hall and Soskice 2001, p. 13) However it is clear, that Hall and Soskice only go so far in bringing in "ideational" content into their analysis, that their view of the importance of deliberation or discourse is merely to provide information to facilitate transactions, and thus does not get at the inherent meaning of the ideas in itself:

Deliberative proceedings in which the participants engage in extensive sharing of information about their interests and beliefs can improve the confidence of each in their strategies likely to be taken by others. Many game-theoretic analyses assume a level of common knowledge that is relatively thin, barely stretching past a shared language and familiarity with the relevant payoffs. When multiple equilibria are available, however, coordination on one (especially one that exchanges higher payoffs for higher risks) can be greatly facilitated by the presence of a thicker common knowledge one that extends beyond the basic situation to a knowledge of the other players sufficiently intimate to provide confidence that each will coordinate on a specific equilibrium. Deliberation can substantially thicken the common knowledge of the group (Hall and Soskice p. 11).

Arguably the most influential constructivist theorist in IR is Alexander Wendt. Wendt argues that the common flaw of both liberal and realist thinkers is to rely on a shared foundation of rationalism. This foundation takes for granted the constitution of rational individual identity. Constructivists like Wendt turn towards "symbolic interactionist" and "structurationist" sociology

(which forms the theoretical foundation of the "new institutionalism") as a means for analytically grasping the constitution of identity which has eluded realist and liberal theorists:

The debate between "neorealists" and "neoliberals" has been based on a shared commitment to "rationalism." Like all social theories, rational choice directs us to ask some questions and not others, treating the identities and interests of agents as exogenously given and focusing on how the behavior of agents generates outcomes. As such, rationalism offers a fundamentally behavioral conception of both process and institutions: they change behavior but not identities and interests. In addition to this way of framing research problems, neorealists and neoliberals share generally similar assumptions about agents: states are the dominant actors in the system, and they define security in "self-interested" terms. Neorealists and neoliberals may disagree about the extent to which states are motivated by relative versus absolute gains, but both groups take the self-interested state as the starting point for theory (Wendt 1992, pp. 391-92).

However Wendt argues that the liberal emphasis on domestic political structure initiates a process which culminates in the constructivist paradigm, by opening the way to an analytic focus on the processes that constitute identity, rather than merely taking it for granted:

When Joseph Nye speaks of "complex learning," or Robert Jervis of "changing conceptions of self and interest," or Robert Keohane of "sociological" conceptions of interest, each is asserting an important role for transformation of identity and interest in the liberal research program and, by extension, a potentially much stronger conception of process and institutions in world politics. "Strong" liberals should be troubled by the dichotomous privileging of structure over process, since transformations of identity and interest through process are transformations of structure (Wendt p. 393).

As I mentioned earlier, Katzenstein's development as a theorist, one of the "strong liberals," follows this path of intellectual development. Katzenstein was at the forefront of attempts to use domestic political structure as a way to explain international outcomes (Katzenstein 1978; Keohane 1997). His political-economic analyses by focusing both on civil society and the institutional structure of the state paved the way for the varieties of capitalism approach (Katzenstein 1985; Gourevich et al 2008). Katzenstein has continued evolving into one of the leading constructivist theorists as well, emphasizing the importance of political identity and norms as explanatory factors (Katzenstein, 1996, 2005, 2012). Unlike Wendt, who restricts his analysis to the international system, Katzenstein emphasizes the importance of domestic political structure.

Katzenstein argues that "civilization identities" are plural, not singular the way Huntington suggests in his influential article and book "The Clash of Civilizations" (Katzenstein 2010; Huntington 1993). The notion of civilization identity can be looked at as an analogue for the Habermasian notion of the lifeworld. Katzenstein argues that Huntington makes a reductive and essentialist argument by reducing identity to a singular set of attributes. A plural and fluid notion of civilizational identity is compelling, but if a pluralist perspective is adopted, this only raises the problem of how choices are made. Analysis of argumentation and the pragmatic conditions that make arguments acceptable can provide a theoretical rationale for how the fluid structures of civilizational identity are navigated in order to respond to situations demanding collective action.

Katzenstein bases his idea of pluralistic identity on Rogers Smith who writes about the multiple traditions in American political culture (Smith 1993). Smith's central target is the idea of "irrational Lockeanism" developed by Louis Hartz (Hartz 1955). Hartz assumes there is a single political culture throughout American history which emphasizes the main principles of Lockean liberalism, but with the absence of a true conservative ideology derived from the feudal class system, and the prosperity of early American life, these ideas are so widely accepted and taken for granted, that these beliefs form a dogmatic core to American political values. The origins of this perspective come from Tocqueville who similarly warned of a "tyranny of the majority" which develops from the uncritical acceptance of established mores, and which again are facilitated by the prosperity of American life (Tocqueville [1835] 2000). Smith, in contrast, argues that there are multiple political traditions. Smith originally emphasized three: besides liberalism, there was republicanism, inherited from British radicals in the 17th century, which stressed the aspects of participation, civic virtue, and self-government, than the more individualistic property-oriented liberalism. The third tradition was a racist ideology he termed "ascribed Americanism," which, again, in contrast to thinkers like Hartz, that racism was not merely derivative of liberalism, or in a strange parallel to Augustinian theology, the absence of liberal values,

as suggested by Myrdal, but contained a substantive content, a developed belief structure that was culturally constructed and reproduced, and was embodied in institutional forms (Smith 1993; Myrdal 1944).

Katzenstein brings the multiple traditions perspective into his own theory of regions and civilizations. He argues Huntington creates a theory of geopolitics based on the same mistaken premise that Smith sees in Hartz, that is, that civilizations can be reduced to a single political culture. Another IR theorist who Katzenstein takes issue with is Krasner, who also assumes there is a single political culture in America, only in this case, he is not concerned to explain the clash of civilizations on a geo-strategic level like Huntington, Krasner's objective is to explain the persistence of American free trade policy, despite the end of American hegemony.

Krasner's own earlier theory of hegemonic stability predicted the end of American trade openness as its hegemonic ascendancy relative to other states declined. However Krasner effectively falsifies his own argument by noting the persistence of an open international trade structure despite the relative decline of American hegemony beginning in the 1960s. In the earliest formulation of this argument in "State Power and the Structure of Trade" Krasner uses a path-dependent argument, noting the persistence of institutional forms even after they have outlived their usefulness, e.g. British policy after 1900, American reluctance to abandon an isolationist stance after World War I, as well as the persistence of free trade in the U.S. since the end of World War II, and increasing after the 1950s. In his later writing, to compensate for this anomaly while retaining his neorealist outlook, Krasner now argues that leaders are more central to decision-making than states (domestic structure over international system), which are falsely conceived as undifferentiated institutions, and since leaders are human, they are motivated by ideas as well as material interests. The persistence of American openness (aside from notable departures from this stance with increased regularity since the 1970s) can then be explained by the attachment that American leaders have to a free trade ideology, an ideology which is

of course supported by the institutions of a liberal-market economy (Hall and Soskice 2001).

Katzenstein argues that civilization identities are important, as are leaders, and that the convergence of leaders embedded in states and trans-statal structures has led to the increased importance of regional identities and institutions, otherwise known as "epistemic communities," which connect regions together in the global economy (Haas 1992). Huntington also pointed to the interaction between economic regionalism and civilization identity. He argues that a common cultural identification is strengthened by regionalism, and that common cultural identity makes regionalism possible in the first place. Katzenstein, is also at odds with Krasner who originally argued a tendency for increased economic regionalism was antithetical to the maintenance of an open trade structure. Katzenstein, in turn, argues for what he terms "porous regions" that are not antagonistic to globalization but facilitate processes of globalization and internationalization. Krasner's data on regions dates back to the imperialistic age of empires, and so the regions he speaks of can not be seen as porous as the modern regionalism that Katzenstein is concerned with. In sum, Katzenstein picks up elements from both Huntington and Krasner in developing his theory of regions, but argues for a pluralistic concept of regions and identity, while both neorealist thinkers succumb to the tendency to attribute a singular cultural identity that shapes political outcomes.

#### **Fourth Puzzle: Ideas and Institutions**

The constructivist perspective provides tools to explain the contest between free-trade and protectionist elements in American politics today. But, to analyze the processes by which one group wins out over the other in trade outcomes, it is necessary to analyze these conflicts through the discursive process of mobilizing support and legitimacy for policies, and this is accomplished through a Habermasian analysis of communicative action and the pragmatic conditions in which arguments become acceptable.

Groups that are relatively isolated or small in number, as Mark Blyth argues, should be able to use ideas to build bridges across class, ethnic, or other lines of social stratification (Blyth 1998). Ideas, Blyth argues, function as bridges and as blueprints for institutional design, as well as the corresponding opposite functions, to drive wedges between social groups and deconstruct institutions. More specifically, economic ideas fill in the causal gaps of how the economic and political structure functions:

Economic ideas provide agents with an interpretive framework, which describes and accounts for the workings of the economy by defining its constitutive elements and "proper" (and therefore "improper") interrelations. Economic ideas provide agents with both a "scientific" and a "normative" account of the existing economy and polity, and a vision that specifies how these elements *should* be constructed. That is, economic ideas also act as blueprints for new institutions. In sum, ideas allow agents to reduce uncertainty, propose a particular solution to a moment of crisis, and empower agents to resolve that crisis by constructing new institutions in line with these new ideas (Blyth 2003, p. 11)

The importance of ideas is acknowledged by the new institutionalism in political science and sociology, but Blyth argues that both the historical and rationalist approaches to institutions, despite recognizing the importance of ideas, in essence circumvent the problems of accounting for ideas, as he explains:

Rather than holding individual's preferences as primitives, historical institutionalists hold institutions themselves as theoretical primitives. For historical institutionalists, institutions are ontologically prior to the individuals who constitute them. Therefore the preferences of "historical" individuals are themselves a *reducta* of institutions. For historical institutionalists, institutions "structure" individuals' preferences, whereas for rationalists, the preferences of individuals, "structure" institutions (Blyth 2003, p. 19)

Peter Hall, for example, writes of the importance of policy paradigms that he argues have a definite impact on choices of economic policy. Hall draws upon the Kuhnian idea of a "paradigm" which he breaks down into three parts: overarching goals of policy, the techniques used to attain these goals, and the precise settings of these instruments. While change in the second and first (techniques and settings) can be explained within the same paradigm, Hall argues that third order change, changes

in the overall goals of policy constitute a new paradigm, such as the transition from Keynesianism to monetarism in the U.K. Paradigm change will also lead to change in the techniques used and the settings of these instruments (Hall 1993).

Blyth argues that Hall, and by extension most historically informed comparativists, do not properly separate the independent force of ideas from the institutional structures they are embedded in. In other words, ideas are subordinate to institutions and merely help to facilitate institutional tendencies to certain outcomes. This also tends to limit ideas to an elite-driven phenomenon that can only resolve conflicts by finding an elite consensus over policy, or as Blyth says:

However, this transition is still seen as an essentially elite process. Bureaucratic and political elites become the bearers of different "policy paradigms." Missing is the way such ideological schemas are used in democratic systems to demobilize existing patterns of collective action, for example stressing their negative aspects, and to develop new ones. The elite game may tell us how ideas get from the blackboard to the party, but now how or why certain ideas come to be accepted over others. The mechanism of translation from academic debate to popular consciousness needs to be spelled out (Blyth 1997, p. 237).

In other words the challenge of incorporating ideas into research is not merely noting the correlation between ideas and institutions, but how certain ideas become institutionalized over other ideas, even displacing previously dominant ideas.

Sheri Berman argues that only when ideas become institutionalized can they truly become an independent variable, and take on "a life of their own" (Berman 2001). Determining the extent to which an idea has become institutionalized then refers to the extent to which this idea is shared by some segment of the bureaucracy, but also by how an idea becomes taken for granted and accepted as reality, what Habermas calls the lifeworld. How then can a Habermasian approach be used to determine the impact of ideas in trade conflicts?

## **The Argument**

I argue that punitive trade conflicts between the U.S.-Japan and U.S.-China can be explained in



terms of “systematically distorted communication,” as a result of the deep framing of free trade norms in American public discourse. Demands for protection from international trade are generated by “systemic imperatives” in the international economic system and the domestic market structure of the U.S. and coded in ideological arguments for “fair trade.” However, due to the limits of free trade framing, the political left (the progressive wing of the Democratic party, organized labor and intellectuals) is unable to unify around a substantive critique of right-wing economic policies, structural reform policies are delegitimized in favor of punitive policies and this requires the construction of an existential threat to the U.S. in order to justify a punitive response. The Left can be defined as comprising some aspects of the Democratic Party as well as organized labor, progressive activists and commentators in the media and academia. This argument suggests that calls for protectionism are inherently irrational and cannot be rationally grounded by providing sufficient reasons to support the argument for protection (i.e. punitive tariffs or other sanctions). Yet, at the same time arguments framed around the idea of “free trade” are also irrational and cannot be rationally grounded. I argue that, rather than seeing “free trade” and “fair trade” as opposing terms they are parts of an interactive whole: that the dominant framing of free trade ideology channels systemic imperatives for trade protection towards punitive policies rather than structural adjustment. The ideological limits of free trade thus distort claims for fair trade. Demonstrating the illegitimacy of both dominant positions is a pre-condition to articulating a new paradigm for understanding international trade that can be rationally grounded.

Systemic imperatives for protectionism are generated in part because of rapidly worsening income inequality as a result of free trade policies (contrary to what neoclassical economics predicts) and the declining hegemonic status of the U.S in terms of world trade and the rise of new trading powers and international competition, especially in East Asia, creating political pressures from interest groups. The liberal market institutions of the U.S. and corresponding free trade ideology channel these pressures

into punitive policy proposals. In other words, both liberal market institutions and free trade ideology paradoxically increases the pressure for tariffs and protectionism because of the lack of legitimate policy alternatives to respond to social costs from increased trade. Since China is a potential military and security threat this also intensifies conflicts. This leads to ideological divisions within the left between those who favor structural adjustment and those who advocate a punitive approach. Divisions within the left undermine substantive attempts to counter the right-wing framing of economic issues.

The normative commitment to free trade (despite its many shadings of meaning) is deeply ingrained in American political discourse, so deviations from this norm must constitute a “state of emergency” or crisis that legitimizes the exceptional means used. This helps explain the functional necessity to define trade partners as an “existential threat,” and why once framed in these terms, arguments for trade protection take on a punitive aspect, in some cases seeking to correct “cheating” in other cases for purposes of “retaliation,” rather, than framing trade conflicts as a more routine adjustment to structural changes in trade patterns. Free trade ideology contributes to the construction of an existential threat (one that cannot be rationally grounded) between trade partners used to legitimize punitive protection in the following ways:

- 1) Structural adjustment policies characteristic of industrial policy is from the outset excluded, i.e. industrial policy is illegitimate.
- 2) Policies that deviate from free trade norms must be legitimized through a crisis and this reinforces the perception of an existential threat.
- 3) Trade practices by foreign partners appear illegitimate and help to feed the perception of an existential threat.

Clearly, the framing of trade conflicts in this way is reinforced by the liberal-market economy of the U.S., but as Berman has argued, ideas once institutionalized take on a life of their own and are thus important enough to warrant examination. At the same time, one of the shortcomings of the varieties of

capitalism comparative approach is the difficulty in explaining institutional change and the political conflicts underlying these changes. This research will then fill in some gaps in comparative political economy as well as IR. Systemic variables like trade structure, intra-industry trade and domestic variables like market structure provide a necessary explanatory context but are insufficient by themselves to explain trade conflicts without understanding how these conflicts are defined in political discourse.

## **Research Design**

Not every trade conflict that has ever occurred between the U.S. and Japan and China could be analyzed. When selecting conflicts to examine I chose conflicts that spread across various industries: from older, heavy industries like steel and autos, to newer industries like electronics and solar power in order to note the arguments used to legitimize tariffs in different industries. I also included conflicts over steel imports since they involved both China and Japan at different points in time, thus allowing a more direct comparison in the arguments used to legitimize tariffs. Similarly, also for the conflicts over exchange rate adjustment (i.e. the Plaza Accord and the effort to label China as a “currency manipulator”), and that also brings to light trade conflicts that do not fall directly under the category of trade wars. One of the outcomes of the Plaza Accord led to an increase in Japanese purchases of U.S. assets. This only intensified the perception of threat, and created the impression the Japanese were “taking over.” Similarly, in cases where China has attempted to purchase U.S. assets, this has also fed the perception of threat.

Political discourse on trade conflicts was sampled from *The New York Times*, *The Washington Post*, and *The Journal of Commerce* and selected using *LexisNexis*. In addition, some articles are credited to the following news services: *The Associated Press*, *Reuters*, *Bloomberg News*, and *Dow Jones*. The newspapers selected were based on differing circulation levels and influence. *The New York*

*Times* has a large circulation (1,000,000+), *The Washington Post* is intermediate (500,000+) and *The Journal of Commerce* is small (15,000+) (AP, 2013). *The Journal of Commerce* is an influential economic journal going back to the early 19th century and caters to a specific audience, i.e. importers/exporters. *The New York Times* is generally regarded as the most influential newspaper in the U.S., has the second largest circulation after *The Wall Street Journal* (not available on LexisNexis), but far outnumbers all other newspapers in the number of Pulitzer Prizes awarded (117), the most prestigious award in journalism; the second highest is *The Washington Post* (47).

Analysis of trade discourse takes place in three stages: 1) reconstruction; 2) categorization and 3) interpretation:

1) Passages from articles will be selected in order to reconstruct a phenomenology of trade discourse over trade conflicts by sampling passages that reveal the framing of these conflicts in political discourse. The focus on news articles is to examine what Blyth calls “the mechanism of translation from academic debate to popular consciousness,” or what Habermas terms the “rationalization of the lifeworld,” in many regards, these publications constitute a nexus between elite and popular levels of discourse, as well as, an arena where various interests engage in strategic contests to frame and define political and economic events. Passages selected will focus on statements from relevant public officials including the President of the United States (POTUS), Cabinet officials like the Secretary of the Treasury or Commerce, the U.S. Trade Representative (USTR), Democratic and Republican members of Congress, relevant interest groups like the National Association of Manufacturers, or United Steelworkers, etc., and, when available, statements from the foreign governments involved in the conflict, e.g. Ministries of Finance in Japan and China, etc. To provide more context, I will also use other official sources: the President’s State of the Union address (SOTU); the U.S.-China Strategic & Economic Dialogue (S&ED); the State Department’s Consultation on People-to-People Exchange (CPE); the Treasury Department’s Report on International Economic and

Exchange Rate Policies (IEERP); the Congressional-Executive Commission on China (CECC), as well as White Papers published by the Chinese government.

2) Sampled passages will be interpreted according to the Habermasian theory of validity claims. Paragraphs will be broken down into statements and categorized according to the content of the statement using a form of “metadiscourse” based on the illocutionary force of each statement. This process helps separate the different types of validity claims that constitute trade discourse and will determine the test by which the validity of statements can be pragmatically adopted as true. Following Habermas' simplified version of Austin and Searle's speech act theory, there are three (instead of five) illocutionary functions of speech: constative speech that refers to factual truth, regulative speech that refers to normative correctness in terms of ethics and morality, and expressive speech which refers to subjective truth. Speech acts can be expressed in the following formula:  $Mp$ ,  $M$  refers to illocutionary force, and  $p$  refers to specific propositions. Different types of speech acts can be rendered as follows:  $Mcp$  (constatives);  $Mrp$  (regulatives);  $Mep$  (expressives) (Habermas 1984).

3) Once statements have been categorized according to illocutionary force they can be interpreted by reference to the corresponding validity claim that determines the conditions of legitimacy for each mode of knowledge: factual correctness, normative correctness, and subjective authenticity. Most statements sampled in discourse will correspond to the constative or regulative mode. To be accepted as legitimate, constative statements must be based on a factual state of affairs; regulative statements must correspond to accepted ethical or moral standards. This provides a test for the rationality of each statement corresponding to its validity claim. By analyzing the framing of these arguments the communicative distortions created by free trade norms in discourse should become apparent.

## **Plan of Dissertation**

In the next chapter, I will lay out in more detail the Habermasian approach to analysis, to resolve some of the lingering ambiguities of other theoretical perspectives.

Chapter three will apply this approach to trade discourse on Japan from the 1980s. Trade conflicts will include voluntary export restraints on autos and steel, tariffs on Japanese semiconductors, the negotiated appreciation of the yen after the Plaza Accord, and the attempt to cite Japan under section 301 of the Omnibus Trade Bill.

Chapter four will apply the Habermasian approach to U.S. discourse on trade with China. Trade conflicts will include the Bush steel tariff of 2002, the attempt to label China a "currency manipulator" by the Treasury, the failed purchase of Unocal by CNOOC, and the ongoing trade war over solar panels.

## **2. Communicative Action and the Strategic Orientation of Trade Discourse**

### **I: Introduction**

At first glance the Habermasian concept of the “public sphere” would be appropriate for an analysis of media discourse. The public sphere as Jürgen Habermas originally defined it was the institutional space in bourgeois society (e.g. salons, coffeehouses, the town hall meeting and newspapers) that allowed for the deliberation of political ideas without the constraints of social and economic forces, an institutional construct that Habermas saw as crucial in the establishment of liberal democracy (Habermas 1962). Habermas concludes that the commoditization of ideas in modern capitalism has effectively neutralized any critical potential once exhibited by the public sphere, one that was always flawed and incomplete. He stresses, despite its flaws, the notion of inclusiveness in the public sphere was “more than ideology,” yet, critiques of Habermas focus on the presumption of critical rationality exhibited by such a bourgeois and patriarchal institution (Fraser 1985; Benhabib 1992; Hardt and Negri 2000). However, criticisms of the public sphere tend to overemphasize this concept, and as a result, conceal the extent that the public sphere represents only the earliest articulation of Habermasian critical theory.

Habermas would later abandon this historical reconstructive method instead focusing on certain “anthropologically deep-seated interests” that he defined as a “technical interest” in controlling nature, a “practical interest” in guiding interaction among socially situated selves, and most controversially an “emancipatory interest” against domination that is revealed through critical self-reflection (Habermas 1968). He later abandoned this Kantian theory of objects of knowledge constituted by human interests, what he later defines as the “philosophy of consciousness,” in favor of a pragmatic reconstruction of the basic competencies required for communication, what critics have dubbed the “linguistic turn.” Yet, these early works contain two enduring themes that are consistent throughout: an emphasis on the political, and a concern for the concrete grounding of rationality in communication (Bohman and Rehg

2014).

In this section I will develop a theoretical framework and methodology based on Habermas' "mature work" beginning with, and mostly emphasizing, *The Theory of Communicative Action (TCA)* in order to analyze and interpret the political discourse of U.S. punitive trade conflicts with China and Japan (Habermas [1981] 1984, 1987). As mentioned in the previous section constructivist modes of inquiry, although offering a hermeneutic interpretive method, often has a tendency to subordinate ideas to institutions, rather than analyzing ideas separately as a determining variable. In order to more clearly understand the role of ideas in these punitive conflicts it is necessary to develop a theory and methodology that can adequately determine (if any) the compelling force of ideas. I argue a Habermasian approach best satisfies this need. I will explain this by showing both how Habermas fits into the constructivist paradigm by addressing many of the critiques of rationalism that constructivists have focused on, but also how he anticipates and transcends the limitations of constructivism.

## **II: Communicative Action and Validity Claims**

Habermas is able to transcend these limitations by nothing less than redefining the meaning of reason as it has come to be understood in Western philosophy. Building on Max Horkheimer and Theodor Adorno's critique of "instrumental reason" and their critical reconstruction of Max Weber's theory of rationalization, supplemented by analyses of speech act theory and American pragmatic philosophy, Habermas defines the change in rationality from one based on control oriented purposive-rationality, or strategic action, to mutual understanding based on rational consensus, or "communicative action," as he explains in *The Theory of Communicative Action*:

We can call an action oriented to success *instrumental* when we consider it under the aspect of following technical rules of action and assess the efficiency of an intervention into a complex of circumstances and events. We call an action oriented to success *strategic* when we consider it under the aspect of following rules of rational choice and assess the efficacy of influencing the decisions of a rational opponent...By contrast, I shall speak of *communicative* action whenever



the actions of the agents involved are coordinated not through egocentric calculations of success but through acts of reaching understanding. In communicative action participants are not primarily oriented to their individual successes; they pursue their individual goals under the condition that they can harmonize their plans of action on the basis of common situation definitions (Habermas [1981] 1984 pp. 285-86; Horkheimer and Adorno [1944] 1972).

Habermas argues an analytical reconstruction of the competencies required by a speaker for communication reveals a universal discursive process by which people come to agree on objective truth, moral rightness, and expressive authenticity, although the content of truths and values differ depending on context. Agreement in any of these areas depends on reference to implicit “validity claims” (*geltansanspruch*) that can be reconstructed through analysis, thus revealing the rational basis that Habermas argues is the inherent goal, or *telos*, of all communication:

Reaching an understanding functions as a mechanism for coordinating actions only through the participants in interaction coming to an agreement concerning the claimed *validity* of their utterances, that is, through intersubjectively recognizing the *validity claims* they reciprocally raise. A speaker puts forward a criticizable claim in relating with his utterance to at least one "world"; he thereby uses the fact that this relation between actor and world is in principle open to objective appraisal in order to call upon his opposite number to take a rationally motivated position. The concept of communicative action presupposes language as the medium for a kind of reaching understanding, in the course of which participants, through relating to a world, reciprocally raise validity claims that can be accepted or contested (Habermas 1984, p. 99).

The reconstruction of validity claims depend on different rules governing the “worlds” of knowledge:

In contexts of communicative action, we call someone rational not only if he is able to put forward an assertion and, when criticized, to provide grounds for it by pointing to appropriate evidence, but also if he is following an established norm and is able, when criticized, to justify his action by explicating the given situation in the light of legitimate expectations. We even call someone rational if he makes known a desire or an intention, expresses a feeling or mood, shares a secret, confesses a deed, etc., and is then able to reassure critics in regard to the revealed experience by drawing practical consequences from it and behaving consistently thereafter (p. 15).

Communicative action takes place when coordinated action occurs not through the use of force or coercion but through the consent of all undertaking the action as a result of a mutual understanding over the rational validity of the action. Further, historical and social development, or “rationalization,” can be interpreted as the progressive realization of communicative action that in turn constitutes a

“lifeworld” of shared meanings that provides a common store of interpretive frames for understanding the world and provides social cohesion among participants in this world. The development of communicative action also calls into being “systemic” forms of social integration that are necessary for social reproduction but undermine the rational basis of collective action by creating mechanisms for coordination that are not contingent on agreement. The tendency for systemic forms of integration to overwhelm areas of social life that are determined through communicative action is what Habermas calls the “colonization of the lifeworld” (Habermas [1981] 1987). If rational agreement is the basis of understanding, as Habermas asserts, then this can provide a “post-metaphysical” grounding for practical reason (*phronesis*) that is both pragmatic and pluralistic. To this extent, Habermas borrows from Austin and Searle’s concept of “speech act theory” that he redefines as the “formal pragmatics” of speech (Habermas 1976, 1984; McCarthy 1981; Austin 1962; Searle 1970). Speech acts represent the atomic structure of “discourse” whether they be scientific, moral, ethical, aesthetic, or other forms of discourse, they are composed of speech acts bounded together which collectively give coherence and meaning to the discourses that take shape.

Following Horkheimer’s definition of “critical theory,” the theory of communicative action is intended to be normative, practical, and also explanatory (Horkheimer [1968] 1999; Bohman and Rehg 2014). If mutual understanding based on validity claims is a means for coordinating action that yields both a normative stance and a practical orientation, it is explanatory in that interpretations of social and political actions are then possible by reconstructing the validity claims that govern practical discourses. Interpretation requires the analyst taking on the “performative attitude” of a participant in communication who takes a “yes/no” position on the validity claims being offered, Habermas argues that the meaning of any action or statement cannot be revealed without adopting this procedure:

Thus the interpreter cannot become clear about the semantic content of an expression independently of the action contexts in which participants react to the expression in question with a "yes" or a "no" or an abstention. And he does not understand these yes/no positions if he

cannot make clear to himself the implicit reasons that move the participants to take the positions they do. For agreement and disagreement, insofar as they are judged in the light of reciprocally raised validity claims and not merely caused by external factors, are based on reasons that participants supposedly or actually have at their disposal. These (most often implicit) reasons form the axis around which processes of reaching understanding revolve. But if, in order to understand an expression, the interpreter must *bring to mind the reasons* with which a speaker would if necessary and under suitable conditions defend its validity, he is *himself* drawn into the processes of assessing validity claims. For reasons are of such a nature that they cannot be described in the attitude of a third person, that is, without reactions of affirmative or negative or abstention (Habermas 1984, pp. 115-16).

Communicative action is hermeneutic in this regard, but also furnishes a counter-factual standard to critique the basis of social and political action that are not based on strong reasons and do not secure the consent of all involved, or in other words, those who are excluded from deliberations leading to action. The theory of communicative action also provides an alternative basis for practical rationality rather than the appeal to traditional values or the imposition of strategic means, the “steering media” of money or power, to establish social order. In this case, I seek to reconstruct the excluded voices in trade discourse i.e. those who favor structural reform policy rather than punitive policies or a further consolidation of neoliberal policies and reveal the lack of any substantive foundation for punitive policies. Habermas argues that democratic institutions already institutionalize the normative basis of communicative action, but the functioning of democratic institutions can be improved through a greater reflexive awareness of these principles (Habermas 1996). However, other theorists have also put forward post-metaphysical theories of practical reason, so why is the Habermasian concept of communicative action better suited to analyze trade discourse over punitive trade conflicts?

### **III. Post-Metaphysical Critiques of Communicative Action**

Critics of Habermas tend to fall into one of two categories, however both essentially argue that Habermas fails to complete his post-metaphysical reconstruction of the pragmatics of communication and regresses to yet another metaphysical formulation. On the one hand, there are “agonists” who argue

that Habermas makes the criteria of universal moral consensus binding in all political and ethical conflicts (even for matters of objective truth), and thereby undermines the theoretical concern for practical reason by establishing an unrealistic goal for political legitimacy and a concept that undermines true pluralism by reifying the mechanism of consensus as a means for resolving disputes (Foucault 1984; Mouffe 1996; Mansbridge 1996; Hardt and Negri 2000; Hearfield 2004). These critics, paradoxically, tend to portray Habermas as being too utopian for real politics, yet at the same time criticize his “procedural formalism” for legitimating the political establishment. The second group share the “weak” or “quasi-transcendental” Habermasian project of communicative action or “discourse ethics,” and argue that Habermas does in fact separate universal consensus as a justification for morality (what is right for all?), from scientific discourse that depends on observation and experimentation, what Habermas later calls “pragmatic epistemological realism,” and especially from ethical and political discourse (what is good for the community?) that does not require universal consensus to be rationally acceptable (Habermas 2003; Benhabib 1990, 1992, 1994, 1996; McCarthy 1998; Rehg 1994, 1997 2003; Bohman and Rehg 2014). Whereas the former group emphasizes mainly the Kantian aspects i.e. the transcendental reconstruction of communicative action and moral consensus, the latter emphasize both the Kantian (moral) and Hegelian (ethical) dimensions to Habermasian theory. Still, these critics argue, ultimately, his conceptualization of political discourse is too abstract and requires further contextualization. I would argue that both critics to some extent oversimplify Habermas’ argument for consensus and for the most part he is able to avoid falling back into a metaphysical formulation, however there is still the lingering problem of separating the different types of validity claims that constitute the practical discourses. Moral, ethical, and scientific discourse are not hermetically sealed apart from each other, but in reality mutually inform and interpenetrate each other to a large extent. In other words, from a practical political standpoint how does one separate the differing types of constative, regulative and expressive validity claims that constitute political

discourse? I attempt to resolve this by incorporating a type of “metadiscourse” that can properly categorize and differentiate validity claims, thus allowing one to reconstruct the rational core (if any) that constitutes political discourse on trade.

Theorists who argue Habermas makes consensus binding in all situations are loosely identified with the label “post-structuralism” like Michel Foucault, Chantal Mouffe, and Antonio Negri. Post-structuralist theorists, although coming from a variety of theoretical perspectives, tend to converge on a theory of democratic politics distinct from the Habermasian “deliberative model,” in favor of the “agonistic model of democracy” (Benhabib 1996; Mansbridge 1996; Mouffe 1996, 2013). Agonistic politics seeks what Mouffe calls a “symbolic transformation” of democracy as constituted by “radical pluralism” distinct from ancient ethical conceptions of the “good life” shared by all. Furthermore, agonistic politics sees power and exclusion as an essential and irreducible element of all politics and is presupposed by Foucault’s notions of “power/knowledge” and aesthetic valorization based on his ethics of the “care for the self,” Derrida’s notion of “différance” or Negri’s valorization of the spontaneous political activity of the “multitude,” Mouffe, for example, says:

Instead of trying to erase the traces of power and exclusion, democratic politics requires bringing them to the fore, making them visible so that they can enter the terrain of contestation. The fact that this must be envisaged as an unending process should not be cause for despair, because the desire to reach a final destination can only lead to the elimination of the political and the destruction of democracy. In a democratic polity, conflicts and confrontations, far from being a sign of imperfection, indicate that democracy is alive and inhabited by pluralism (Mouffe 1996, p. 255).

Agonistic politics seeks to do what all critical theories do, that is to reveal power structures and relations of domination that exist within democratic polities. However, what limits, if any, are to be put on the exercise of power, even power exercised by a pluralistic demos? In other words how do agonistic theorists deal with a persistent problem of political theory: the “tyranny of the majority?”

If agonistic politics is to avoid degenerating into the tyranny of the majority or even fascism, it

must at least posit some general principles of human rights that are binding in all contexts. To posit these rights introduces an element of circularity, and ironically, for a theoretical perspective concerned with uncovering concealed normative assumptions, puts forward its own unspoken assumptions. Seyla Benhabib criticizes the antifoundational position held by agonistic theorists (and other anti-foundational arguments like Richard Rorty's "ethnocentric liberalism" or Benjamin Barber's "strong democracy") by noting the circularity and unspoken assumptions shared by agonists:

"antifoundationalist theories of democracy are circular in that they either posit or simply take for granted precisely those moral and political norms of citizens' freedom, equality and democratic legitimacy for the justification of which what are dubbed 'foundationalist' models were developed in the first place" (Benhabib 1996, p. 71). Rorty's argument, while also espousing the importance of an open and inclusive politics puts these values in a realm that is so self-evident it is above argumentation and contestation. Furthermore, the emergence and institutionalization of these values in democratic government is due to contingent historical factors in the development of Western political culture, a view shared by Karl Popper and Alvin Gouldner (Rorty 1991; Benhabib 1996; Popper [1945] 2002; Gouldner 1976). Benhabib prefers the Habermasian reconstructive method since it can provide a rational grounding to these values that manages to avoid culturally specific or "essentialist" arguments. Also, when Mouffe speaks of forms of "power compatible with democratic values" it would have to resort to discursive claims based on rational principles as well as the procedural mechanisms that Habermas sees as the institutionalized form of these values:

A communicatively achieved agreement has a rational basis; it cannot be imposed by either party, whether instrumentally through intervention in the situation directly or strategically through influencing the decisions of opponents. Agreement can indeed be objectively obtained by force; but what comes to pass manifestly through outside influence or the use of violence cannot count subjectively as agreement. Agreement rests on common *convictions*. The speech act of one person succeeds only if the other accepts the offer contained in it by taking (however implicitly) a "yes" or "no" position on a validity claim that is in principle criticizable. Both ego, who raises a validity claim with his utterance, and alter, who recognizes or rejects it, base their decisions on potential grounds of reasons (Habermas 1984, p. 287; Mouffe 2000).

In sum, agonistic theories help reveal suppressed voices in a democratic polity and are cognizant of the limits of foundational arguments, but their critique of communicative action is limited by a shallow reading of Habermas and its own unspoken assumptions over core political values.

The second group of critics like Seyla Benhabib and Thomas McCarthy incorporate Habermas' distinction between universal moral discourse from context-dependent ethical and political discourse. Ethical discourse, of which political discourse is considered a part of, is normative but does not refer to the same universal standards of moral justification but is based on context-dependent standards of authenticity defined by the ethical community. Although structured differently, in reality they overlap significantly, if moral and ethical discourse were theorized as completely separate this would create another reification. Instead, according to Habermas, moral discourse based on justice informs ethical and political standards as do pragmatic considerations based on technical feasibility. Politics, or discourse over laws, must take into account all differing types of validity claims and discourses in a process of deliberation that is open to all and constituted by legal procedures. Essentially, laws, to be valid, must pass discursive tests corresponding to all types of discourses and validity claims they are based on (Habermas 1996).

Unlike Rawls who reproduces the isolated Kantian subject in reasoning from an "original position" and deriving abstract principles of justice that all could supposedly agree to, moral claims are resolved in a dialogical or discursive procedure that is fully inclusive and equal, and most importantly takes into account the radically pluralist nature of modern societies. Dialogical reasoning also takes into account the concrete context in which needs develop rather than the Rawlsian fiction of a "veil of ignorance" that abstracts from this context, something feminist theorists have noted conceals the patriarchal-orientation of Rawls' theory of justice (Rawls 1971, 1993; Young 1990; Benhabib 1994; Mouffe 1996). The supposed impartiality of the veil only conceals normative assumptions lying

underneath. This is essentially the “communitarian” critique of Rawls as well (MacIntyre 1981; Sandel 1982; Taylor 1989).

In contrast to communitarian theorists like Alasdair MacIntyre, Michael Sandel and Charles Taylor, deliberative theorists’ model of ethical discourse and rationality does not get ensnared by claims of cultural relativism the way communitarians do because “deliberative democracy” is based not only on ethical standards of the good, but on a universal moral theory based on the idea of communicative action. Unlike communitarians, deliberative theorists have recourse to universal moral standards of justice (as well as scientific truth) and provides what Benhabib calls the “context bursting force of validity claims” that limits the scope of ethical claims by relating ethical standards to arguments based on reasons, as explained by Habermas:

We use the term *argumentation* for that type of speech in which participants thematize contested validity claims and attempt to vindicate or criticize them through arguments. An *argument* contains reasons or grounds that are connected in a systematic way with the *validity claim* of a problematic expression. The "strength" of an argument is measured in a given context by the soundness of the reasons; that can be seen in, among other things, whether or not an argument is able to convince the participants in a discourse, that is, to motivate them to accept the validity claim in question. Against this background, we can also judge the rationality of a speaking and acting subject by how he behaves as a participant in argumentation, should the situation arise (Habermas 1984, p. 18; Benhabib 1990, 1994).

Distinct from the Hegelian notion of *Sittlichkeit*, the “ethical community” envisioned by Habermas and other discourse theorists is radically pluralistic and begins from the assumption that ethical disputes between various groups are common and to be anticipated. The intensity of disputes is limited by mutual observance of human rights that are not dependent on the communities’ standards of the good but result from reconstruction of the principles of communicative action that presumes the moral competence of speakers. Still all positions, even ethical standards can be criticized from the basis of the reasons that ground their claim to be valid. In some regards this can occur by reference to ethical standards in a given situation, in other cases ethical standards themselves are open to criticism based on



moral and scientific reasons.

Political discourse must then be constructed without universal consensus as its goal but to find “reasonable” decisions that can withstand criticism (as well as to critique decisions that cannot withstand criticism), these decisions must also be made through procedural mechanisms that are nonetheless open and inclusive and maximize the potential for agreement as well as frequent opportunities to “revalidate” decisions. However, critics like Benhabib argue that Habermas fails to specify the precise dialectic of “the right and the good” or dialectic between universal moral standards and context-dependent ethical discourse that would allow ethical standards and political decisions to be criticized from a rational perspective. Benhabib argues that Habermas’ notion of universal moral discourse, represented by his dialogical principle of universalization (U), summarized here by Bohman and Rehg: “A [moral norm] is valid just in case the foreseeable consequences and side-effects of its general observance for the interests and value-orientations of *each individual* could be *jointly* accepted by *all* concerned without coercion,” is redundant, and worse too metaphysical, and cuts morality off from its concrete determination in a specific context (Benhabib 1990, 1992, 1994, 1996; Bohman and Rehg 2014). In the final analysis, Habermas cannot provide an empirical standard for political discourse than can determine if actual discourse is rational or not, or actually is a result of consensus, and worse creates the impression that politics as it is now meets this threshold of consensus.

Benhabib proposes several steps to compensate for the supposed shortcomings of Habermas’ theory. One, for truly inclusive democratic deliberation certain ethical standards must be assumed from the beginning, what she calls “universal moral respect” and “egalitarian reciprocity,” that are not derived through deductive reasoning and argues that positing these values is not circular logic but a result of the “hermeneutic horizon of modernity” (Benhabib 1990, 1992, 1994). To this extent, she argues for a synthesis of the agonistic and deliberative models, coming close to Rorty’s ethnocentric liberalism by limiting rational democratic deliberation to modern societies. Also, to supposedly bridge

the gap between Habermas' notions of moral and ethical discourse, she argues, following Rawls and James Sterba, that practical reasoning must proceed at two levels, at the level of the "generalized other" (moral discourse) and the "concrete other" (ethical discourse), or what she alternatively refers to, as the "context of justification" and the "context of application" (Benhabib 1990, 1994). Finally, she appeals to Arendt's notion of "enlarged thinking" and the "anticipated communication with others" as a substitute for the Habermasian notion of consensus (Benhabib 1992). All of these moves she sees as ways of reconfiguring and rescuing the foundering project of Habermasian "discourse ethics."

However, following the Habermasian method of reconstruction, the presuppositions of beliefs like moral respect and reciprocity are based on the principles of communicative action that Habermas has argued can be reconstructed through an analysis of the pragmatic process of reaching understanding and does not need to be posited as the distinct hermeneutic perspective of modern society. Furthermore, ethical standards are also informed by scientific discourses and pragmatic considerations and not simply moral considerations of justice. Discourse theorists like Benhabib and McCarthy, first frame the debate between moral and ethical discourse and to some extent overlook the importance of scientific truths as mediating ethical standards, and second, along with communitarian theorists tend to assume a rigid dichotomy between "rational" moral discourse and "irrational" ethical discourse, but by holding so strictly to this distinction they tend to reify the differences. McCarthy, for example, argues that many ethical differences may be reasonable but unresolvable, and this undermines Habermas' attempt to ground legitimate political and ethical beliefs on rational agreement (McCarthy 1998). However, McCarthy's analysis only holds true if we accept all ethical perspectives as they are now, without first subjecting these beliefs to critical scrutiny of the moral, ethical, and objective foundations they are based on.

Habermas sees ethical, moral, and even scientific discourse as all mutually informing each other and sees ethical standards gradually incorporating both moral and scientific truths into the ethical

communities' own definition of itself. Ethical beliefs like racism or homophobia would then be unable to justify themselves once they have to provide reasons to justify their beliefs in terms of morality and objective truth, as well as the inclusion of other voices that do not share these beliefs. This is revealed most clearly in Habermas' notion of social development as a learning process, one that borrows heavily from Kohlberg's stages of moral development:

The concept of *grounding* is interwoven with that of *learning*. Argumentation plays an important role in learning-processes as well. Thus we call a person rational who, in the cognitive-instrumental sphere, expresses reasonable opinions and acts efficiently; but this rationality remains accidental if it is not coupled with the ability to learn from mistakes, from the refutation of hypotheses and from the failure of interventions (Habermas 1984, p. 18; Kohlberg 1981).

Habermas also responds to his critics by arguing that political discourse incorporates moral, ethical and pragmatic claims regarding the use of technical means and that legitimate laws have to pass discursive tests of validity in all. The pragmatic basis of moral agreement must also be stressed since both groups of critics isolate his conception of moral discourse as the weak point in his theory, or the most metaphysical aspect of his theory. Following Durkheim, Habermas argues legitimate moral beliefs depend on agreement among those subject to the beliefs (Habermas 1987). If the legitimacy of norms depends on agreement, logically speaking, the strongest, and most legitimate moral beliefs would seek the widest range of agreement: universal agreement. However, to be able to reconstruct the idea of agreement and understanding as the foundation of morality, Habermas must also show that even in so-called moral beliefs that fall well short of this standard, some kind of agreement is adhered to by all groups and communities, in other words, even the most narrow and oppressive moralities must have some adherents, meaning that some people must agree with these beliefs for them to have any binding force at all. If this is truly a pragmatic requirement for any belief system then Habermas' notion of universal moral consensus is not utopian but arrived at by reconstructing the pragmatic behavior that make any shared moral or ethical belief possible in the first place.

However, a problem still lingering in Habermas' formulation is how do you (or a participant in discourse) separate the various claims made in different discourses? It is not enough to assume that these practical discourses all converge in political deliberation without specifying a mechanism by which they can be separated and analyzed, for only then can they be criticized, this is precisely the weakness that critics see in Habermas. I argue in order to properly understand political discourse it must be broken down into its constituent elements (i.e. speech-acts) and the validity claims each speech act is based on. My method then is to reconstruct the validity claims by analyzing the speech acts that constitute political discourse, categorizing them according to their illocutionary function, to determine the discursive test required for each speech act. This allows a reconstruction of the rationality of real practical discourse, but requires a kind of "metadiscourse" that Habermas has ruled out as unnecessary in favor of reconstructing the "logic of argumentation" that constitutes and differentiates practical discourses. However, owing to the lingering problems in Habermasian theory I believe this approach is warranted. McCarthy suggests how this metadiscourse can take shape:

What we need here is a model of practical discourse in which the thematization of any single aspect can take place only against a *background* of implicit assumptions about other aspects, which can themselves be contested and thematized at anytime. Thus, *in practice* political deliberation is not so much an interweaving of separate discourses as a multifaceted communication process that allows for fluid transitions among questions and arguments of different sorts (McCarthy 1998, p. 135).

My position is that, breaking discourse down into its atomic elements (speech-acts) is the best way to uncover the core of rationality (if any) that constitutes political discourse on trade conflicts, and at least uncover the normative presuppositions that structure this discourse, i.e. free trade norms.

Speech acts are constituted by both what John Austin termed the "locutionary" component, or the semantic content of an utterance, and that "illocutionary" component that refers to the function of the statement (Austin 1962). According to Habermas, this provides an alternative concept of understanding than the teleological perspective of self-interested actors:

The self-sufficiency of the speech act is to be understood in the sense that the communicative intent of the speaker and the illocutionary aim he is pursuing follow from the manifest meaning of what is said. It is otherwise with teleological actions. We identify their meaning only in connection with the intentions their authors are pursuing and the ends they want to realize. As *the meaning of what is said* is constitutive for illocutionary acts, *the intention of the agent* is constitutive for teleological actions" (Habermas 1984, p. 289).

Habermas refers to speech act theory as the "formal pragmatics of speech," however he simplifies

Austin's illocutionary categories from five to three:

With the illocutionary force of an utterance a speaker can motivate a hearer to accept the offer contained in his speech act and thereby to accede to *a rationally motivated binding* (or bonding: *Bindung*) *force*. This conception presupposes that acting and speaking subjects can relate to more than only one world, and that when they come to an understanding with one another about something in the one world, they base their communication on a commonly supposed system of worlds...The corresponding validity claims of truth, rightness, and sincerity can then serve as guiding threads in the choice of theoretical perspectives for distinguishing the basic modes of language use, or the functions of language, and classifying the speech acts that vary with individual languages (p. 278).

Habermas argues there are three illocutionary functions for speech acts: either they convey objective knowledge (a constative speech act), or moral or ethical obligations based on observance of social norms (regulative), or demonstrations of subjective desire (expressive). Habermas breaks from Austin by constructing the idea of claims to truth, or validity claims, contained in speech acts based on reasons that can be reconstructed in arguments:

Communicatively achieved agreement is measured against exactly three criticizable validity claims; in coming to an understanding about something with one another and thus making themselves understandable, actors cannot avoid embedding their speech acts in precisely three world-relations and claiming validity for them under these aspects. Someone who rejects a comprehensible speech act is taking issue with at least one of these validity claims. In rejecting a speech act as (normatively) wrong or untrue or insincere, he is expressing with his "no" the fact that the utterance has not fulfilled its function of securing an interpersonal relationship, of representing states of affairs, or of manifesting experiences. It is not in agreement with *our* world of legitimately ordered interpersonal relations, or with *the* world of existing states of affairs, or with *the speakers's own* world of subjective experiences (Habermas 1984 p. 308).

Each type of speech act depends on its own process of redeeming its validity claims, constative acts

depend on what is being asserted as true conforms with observable evidence, or objective knowledge, to support that fact; with regulative acts what is being claimed actually conforms with accepted social norms and refers to both morality and ethics; and with expressive acts that what is being expressed is sincere based on observed behavior and consistency. Ethical discourse straddles the line between regulative and expressive speech acts. For Habermas this means that both norms can be rational to the extent that normative speech acts can be opened up to rational argumentation and even expressive claims to sincerity can be considered rational. In other words when a normative claim is put forward it can be accepted if it conforms with established norms or universal standards of justice, it is rejected if it fails to meet these standards, and expressive claims can be accepted if what is expressed is consistent with behavior or rejected if not. Besides sorting out the validity claims that separate the three worlds of knowledge, Habermas distinguishes between communicative speech acts and strategic acts (which appropriates language). Strategic action is associated with what Austin calls the "perlocutionary" effects-oriented aspects of speech and corresponds with imperatives (commands) as an illocutionary speech act.

Table [2.1]

Types of action	Formal-Pragmatic Features	Characteristic Speech Acts	Functions of Speech	Action Orientations	Basic Attitudes	Validity Claims	World Relations
Strategic Action		Perlocutions Imperatives	Influencing one's opposite number	Oriented to success	Objectivating	(Effectiveness)	Objective world
Conversation		Constatives	Representation of states of affairs	Oriented to reaching understanding	Objectivating	Truth	Objective world
Normatively Regulated Action		Regulatives	Establishment of interpersonal relations	Oriented to reaching understanding	Norm-conformative	Rightness	Social world
Dramaturgical Action		Expressives	Self-representation	Oriented to reaching understanding	Expressive	Truthfulness	Subjective world

Source: Jürgen Habermas, *The Theory of Communicative Action*, Vol. 1 [1981], trans. Thomas McCarthy, Boston: Beacon Press, 1984, p. 329

To analyze trade discourse, it can be broken down into a series of speech acts that are based not just on objective truth but on normative claims, and to a lesser extent, expressive claims as well.

Speech acts can be expressed, following Habermas' terminology, as follows:  $Mp$  where  $M$  refers to the illocutionary component and  $p$  refers to a specific proposition. The different modes of speech acts can

be depicted as followed: *Mcp* for objectivating acts (constatives), *Mep* for expressive acts, and *Mrp* for regulative acts. Statements in discourse can then be isolated and categorized according to this schema. Once the illocutionary meaning of the statement is determined its validity claim can be accepted or rejected based on the reasons given. Objectivating acts can be rejected if there is evidence that contradicts the claim, regulative acts can be rejected if it undermines accepted norms, and expressive acts can be rejected if behavior is not consistent. By sorting through the various speech acts which structure trade discourse it is possible to determine the communicative and strategic elements that make up this discourse and how they influence motivations to seek trade sanctions.

The adaptation of speech act theory is what distinguishes Habermas from other constructivist approaches and informs the methodological approach to analyzing discourse discussed above and in the previous chapter. Although I have indicated the limits of dominant paradigms in political science, it is important to understand the theoretical assumptions on which these paradigms are based in order to better understand the limitations of these approaches and to point the way towards the incorporation of speech acts to transcend these limits.

#### **IV: Communicative Action and Social Theory**

Liberal and realist paradigms in political science limit themselves epistemologically to “one world”: objective knowledge. The preoccupation with one-world results from the rigorous demands of scientific “value-neutrality” defined by Weber, a development that since Kant has stipulated that the realm of values and subjectivity (although never disputing its reality) are incapable of being understood rationally (Weber [1949] 2011). Phenomenology was intended to compensate for the limitations of the neo-Kantian foundation of Weberian theory, however it failed in addressing these shortcomings precisely because it was unable to break out of what Habermas calls the “philosophy of consciousness,” the rational individualist ontology (Schütz [1932] 1967; Habermas 1984). Even the incorporation of



“symbolic interactionist” sociology, i.e. Mead, suffers from the same limitations, namely the rationalist foundation which prevents analysis from probing deeper into the historical construction of subjectivity through intersubjective interaction (Habermas 1984, 1987). As a result, constructivists often take for granted processes that determine identity as materialistic; they are thus still rooted in the purposive-rational orientation (and individualist ontology) of liberals and realists.

To correct this shortcoming, Habermas appropriates the concept of “lifeworld,” comprising the stored structures of objective meaning, as well as, moral ethical, and expressive knowledge that are utilized by subjects in interpreting the world and interacting and acting with others, fused with the paradigm of communicative action, a perspective that sees social development as the gradual rationalization of social interaction:

The social scientist encounters *symbolically prestructured objects*; they embody structures of pretheoretical knowledge with the help of which speaking and acting subjects produced these objects. The inner logic of a symbolically prestructured reality, which the social scientist runs up against in constituting his object domain, resides in the generative rules according to which the speaking and acting subjects that appear in the object domain produce the social context of life, directly or indirectly. The object domain of the social sciences encompasses everything that falls under the description "element of a lifeworld." What this expression means can be clarified intuitively by reference to those symbolic objects that we produce in speaking and acting, beginning with immediate expressions (such as speech acts, purposive activities, and cooperative actions), through the sedimentations of these expressions (such as texts, traditions, documents, works of art, theories, objects of material culture, goods techniques, and so on), to the indirectly generated configurations that are self-stabilizing and susceptible of organization (such as institutions, social systems, and personality structures) (Habermas 1984, pp. 107-8).

To put it another way, the limits of the constructivist paradigm begin with the assumption (similar to phenomenologists like Schütz and Berger and Luckmann) that there is a lifeworld of shared meaning that forms an important part of the constitution of political identities, but do not explore the "rationalization of the lifeworld," or how “meaning structures” develop (Schütz 1967; Berger and Luckmann 1966). This oversight can be corrected by analyzing, with more depth, the discursive practices that construct these identities. Something that Habermas argues reveals the essentially rational

core of communication. Habermas goes further than other phenomenological or hermeneutic based approaches by arguing that the lifeworld is not a reified structure of beliefs and values but develops and becomes more rational over time. Culminating at a stage of development (post-traditional) where knowledge can be communicated through validity claims based on reasons, moral and ethical beliefs can be based on rational principles agreed to by all, and not dependent on customary or mythical interpretations of truth, or taking for granted the self-interested orientation of actors.

According to Alexander Wendt, constructivists tend to fall into either a materialist, or phenomenological position both of which take for granted the primacy of objective knowledge over other forms of knowing (Wendt 2004). Materialists take for granted that economic scarcity and security concerns (objective knowledge) dictate the construction of identity. Phenomenologists explore the constitution of identity (regulative knowledge) as an interpretive process but take for granted the relativism of identity as a constitutive process that occurs in the objectively “real world.” Wendt, in his “pre-quantum phase,” interprets his own *Social Theory of International Politics*, as dualist (in a Cartesian sense). The essence of this dualism consists in the separation of the realms of mind and matter, each of which function according to their own logics (again taking objective knowledge for granted, now as something differentiated from interpretive processes of constructing meaning). Hermeneutic analysis and interpretation can reveal the structures of mind that determine identity, while the physical realm conforms to materialist paradigms (i.e. neorealism). The rules of each world are exclusive to itself and does not at all correspond to the other, implying hermeneutic analysis is useless in understanding material processes, just as strategic action is incapable of probing the deep structures of the mind. Wendt's position seems close to a kind of “neo-idealism” that shifts causal emphasis to mind over matter. He argues that social theory including constructivist theories are still based on “classical physics” and suggests highly speculative and controversial ideas in quantum theory as a means of resolving the duality of mind and matter, essentially arguing that matter is mind. Yet, he still

uses argumentation appropriate for validating objective knowledge, rather than reflecting on the pragmatic conditions that make mutual understanding possible.

Habermas, like constructivists, is concerned with the methodological orientation of the social sciences on the Weberian notion of purposive-rationality that forms the core of liberal and realist political paradigms. According to Weber, social action in modern societies can be understood as goals or purposes chosen on the basis of means-ends relationships; the end being the purpose or goal that an actor seeks to achieve or create, and the means chosen to achieve these purposes, in turn based on the criteria of efficiency, effectiveness and success. Weber calls this relation between means and ends the rationalization of action, or purposive-rationality and argues that historical development can be understood as the progressive institutionalization of purposive-rational action in social institutions, belief systems and personality structures (Habermas 1984). Weber derives a theory to explain how individuals orient their behavior towards purposive-rational means and ends, that is also voluntaristic, meaning that means and ends are freely chosen (a sociological transvaluation of the Kantian idea that ends are freely chosen). Weber's methodology, the interpretation of the meaning of social action (*Verstehen*) also rests on the ability to explain action in terms of rational motivations. Purposive-rationality (*zweckrational*) is one motive for action along with value-rationality (*wertrational*), and "sub-rational" modes of acting: affective behavior and habitual action. Practical reason is in reality a synthesis of purposive-rational and value-rational action complexes, embodied in institutionalized action systems, however in modern societies purposive-rational orientations are dominant, and to a large extent have penetrated into value-rational orientations redefining normative standards to what best complements purposive-rational orientations. However, if the end of sociological theory, and Weber's intention, is to derive an explanation for social order it remains unclear how an adequate explanation for intersubjective social order can be explained from the perspective of self-interested actors who behave strategically. Despite the importance of social norms and culture (e.g. the Protestant

ethic) as an explanation for social action and outcomes in the transition to modern society, there is an explanatory gap in a voluntaristic action theory to explain the binding force of norms in modern society (in other words, why do norms have force even if it goes against self-interest?).

In traditional societies ends and means are based on predominant normative standards (and in many cases the motives for acting would fall at the level of affective or habitual behavior), most commonly based on a mythical understanding of the world. The mythical understanding of the world creates standards that are internalized by acting subjects and embodied in institutions that complement these values. To the extent norms dictate behavior, action rooted in a traditional context can seem to be "irrational" since action is often not oriented to purposive-rational action, meaning that often action is not oriented to success but a "logic of appropriateness" that dictates behavior. In Western civilization, purposive-rational values began to replace traditional values which gradually became internalized over time (especially, but not exclusively to Protestant sects in England and its colonies) and embodied in social institutions like the modern capitalist enterprise and the modern state. For Weber, modernity is defined by a society where the rationalization of purposive-rational action orientations becomes predominant over traditional values. However, paradoxically this undermines the normative foundations of society which provide a framework for shared interpretations and a guide for interaction, as action orientations become tied to strategic calculations the legitimacy of traditional norms is eroded, yet the self-interested orientation of purposive-rationality leaves little substitute for the cohesiveness of moral norms. Weber refers to this as the "disenchantment of the world," leading to what he later poetically referred to as the "iron cage of modernity" in *The Protestant Ethic and the Spirit of Capitalism*, or in his address to the revolutionary students in Munich, *Politics as a Vocation*, as the "polar night of icy darkness" (Weber [1904] 2001, [1944] 1958).

Horkheimer and Adorno interpreted purposive-rationality as the inescapable, irresistible logic of instrumental reason that constitutes the "dialectic of enlightenment" (Horkheimer and Adorno [1944]

1972). In a similar vein, Foucauldian historical narratives dealing with the history of madness or sexuality, or the prison also interpret a tendency toward greater rationalization, or greater instrumental control over these areas (Foucault 1984). However, Weber seems to overemphasize the decline of normative foundations that survive the decline of religious worldviews and the rise of secularism, indicated, in part, by the existence of political and social events that cannot be explained in terms of strategic calculations of interest, and the persistence of normative social order despite the reputed decline of the normative foundations of order (Parsons [1937] 1949, 1951, 1967 1978; Parsons and Shils [1951] 1962; Bellah 1967; Habermas 2007). To this extent, Weber's account of social rationalization as purposive-rationality (shared by critical theorists) is one-sided and does not take into account alternative paths of rationalization. As mentioned earlier, Habermas refers to this as the "philosophy of consciousness" that is rooted in a model of subjectivity that interprets and acts in the world, but ignores the intersubjective constitution of both the subject's framework for interpretation and the intersubjective validation of action. Moving past these limitations necessitates what is now referred to as the "linguistic turn" towards the traditions of Anglo-American analytic philosophy (e.g. Austin) and social psychology (Mead).

According to Weber, rationalization proceeds by purposive-rational action orientations, at the level of personality, culture and society, progressively replacing value-rational action orientations (this development is paralleled in Durkheim's thought in the transition from "mechanical solidarity" to "organic solidarity"). Weber distinguishes between "social rationalization" that is defined by the institutionalization of purposive-rationality, from "cultural rationalization" and the rationalization of individual behavior. Cultural rationalization consists in the rationalization of intersubjective worldviews from more "primitive" religions to more advanced stages culminating in the eventual abandonment of a mythical-religious worldview for a secular worldview. Individual behavior is rationalized to the extent in which purposive-rational orientations are institutionalized in society and

cultural values are internalized, as well as the development of a more reflexive understanding of ones' motivation for acting. Cultural rationalization, Habermas argues, sets the basis for what he calls a "post-traditional consciousness," a consciousness that can grasp normative standards through validity claims instead of appeals to personal authority or tradition, and grounds objective truth in arguments based on evidence (Habermas 1976, 1984; McCarthy 1981; Kohlberg 1981). However, Habermas argues that Weber does not pursue this line of thinking, instead adopting a narrative where the purposive-rational potential in cultural rationalization complements the institutionalization of purposive-rationality in society at the expense of the communicative potential of cultural rationalization.

Table [2.2]

## Forms of Manifestation of Occidental Rationalism in the Emergence of Modernity

	Cognitive Elements	Evaluative Elements		Expressive Elements
Culture	Modern Natural Science	Rational Natural Law	Protestant Ethic	Autonomous Art
Society	Scientific enterprise (universities, academies, laboratories)	University-based jurisprudence, specialized legal training	Religious associations	Artistic enterprise (production, trade, reception, art criticism)
	Capitalist economy	Modern governmental institutions	Bourgeois nuclear family	
Personality	Behavioral Dispositions and Value Orientations			
	of the methodical conduct of life			of the   countercultural   life-style 

Source: Habermas 1984, p. 167

Habermas argues that Weber overlooks the importance of normatively binding agreements based on mutual understanding, locating the potency of norms in traditional (and thus sub-rational) values:

Weber did not clearly carry through, at the level of action orientations themselves, the interesting distinction between social relations mediated by interest positions and those

determined by normative agreement...More serious is the fact that while Weber does distinguish between tradition-bound and rational agreement, he explains this rational agreement inadequately...using the model of arrangements among subjects of private law (Habermas 1984, p. 284).

According to Habermas, value rational action is, in the final analysis, based on an agreement on the rightness of norms. Communicative action, as a kind of value rational action is based on a judgment of rightness that can be defended by arguments based on reasons. The rational core of communicative action, he argues, has become progressively rationalized over time making the possibility of normative agreement based on the understanding of communication in language a reality, instead of adherence to traditional values that cannot be objectively verified, or to strategic interests using money or power. To compensate for this weakness in Weber's theory, Habermas turns to other foundational sociological thinkers like Mead and Durkheim who emphasize the intersubjective nature of action and the determining force of social norms respectively (albeit critiquing and building on their limitations as well).

From Mead, Habermas sees the origins of a model of communicative action based on the symbolic gestures of subjects in interaction as an alternative to the solipsistic goal-directed model of purposive-rationality, and a theory that analyzes the constitution of subjectivity as a process of communicative interaction and feedback (Habermas 1987). Mead's analysis of communicative action is in turn developed out of Hegelian dialectics (much like Mead's peer Dewey is influenced by Hegel) (Aboulafia 2001). Hegel's most important contribution to philosophy is unmasking the constitution of the Kantian knowing subject. Whereas, Kant had argued for the active role of consciousness in interpreting sensory information, he saw the categories of the conceptual understanding as being essentially fixed and permanent. For Hegel, the subject is formed out of the "dialectics of language, labor, and morality," and not the insulated, detached subjectivity postulated by Kant, thus Hegel puts thought into motion, as the categories of the understanding develop throughout history (McCarthy



1981). Subjectivity is constituted in accordance with the development of linguistic structures for interpretation and labor processes that determine needs and their satisfaction, as well as the self-awareness of subjectivity, which Hegel argues, culminates in the mutual recognition of subjectivity among different subjects. Mead shies away from the political and existential implications of Hegel and focuses on the construction of the self through the intersubjective processes of language, labor, and morality, or in Habermas' terminology "individuation through socialization" (Habermas 1992).

The constitution of mind, self, and society is as a process of communicative interaction between free subjects. Mead argues that communicative interaction evolves from simple gestures to symbolically mediated interaction, that institutionalize the meaning of gestures that now become signs, eventually giving way to normatively guided interaction. This process indicates the transition to a communicative process based on the inherent grammatical meaning of language, rather than the expressiveness of symbolic representation. In normatively guided interaction, subjectivity is shaped by internalizing what Mead calls the "generalized other" which holds the mutual recognition of other subjects as the basis of normative action. However, Mead limits his analysis to the ontogenetic developmental process of individual identity, but does not develop a phylogenetic theory of historical development that views the process of individuation in a larger historical context. The constitution of subjectivity in Mead's analysis is blind to the constraints of economic and political forces. Mead argues that gestures become increasingly complex over time but does not analyze the social functions of norms and their role in social and functional integration.

To understand the development of normative structures, Habermas turns to Durkheim (Habermas 1987). Durkheim like Weber sees the binding force of norms eroding in modern society as integration becomes more reliant on economic interdependence that proceeds according to purposive-rational orientations instead of normative consensus leading to social "anomie" or the breakdown of social bonds. The basis of social norms is rooted in the concept of the "sacred," which provides a basis

of shared meaning: the lifeworld; as the idea of the sacred declines in modern life, so too does the binding force of norms. The force of norms although backed by sanctions must also contain within it a basis for agreement, or in other words, sanctioning individuals for breaking norms is only permissible once there is agreement that certain kinds of behavior should be punished. If compliance with norms was only based on sanctions or punishment, norms would not have the binding force that they do; again norms come to have force because people in society agree on certain standards of behavior. Habermas argues that the binding force of norms is preserved in language. The rational potential in validity claims are released when structures of communication become more rationalized, as he says, the authority of the holy is replaced by the authority of "achieved consensus" (Habermas 1987, pp. 91-92). Durkheim suggests this by arguing traditional societies are based on "mechanical integration" which consists of ritualistic behavior that is uncritically accepted as binding, versus the "organic integration" of modern society based on the conscious acceptance of social norms. Where normative standards are once preserved in religiously sanctified concepts which defied rational analysis, in a modern context moral norms retain their validity to the extent they can be rationally defended in a process of argumentation, what Habermas terms the "linguistification of the sacred." Opening normative authority to arguments based on reasons, in turn, makes possible what Habermas terms the "rationalization of the lifeworld." The correctness of norms is in turn conditioned by the state of objective knowledge of what is possible, with the implication that correct norms should not be objectively harmful for the subjects adhering to these norms, a linkage first suggested by Dewey who argued that moral values that cannot be scientifically supported tend to die out over time (Dewey [1927] 1991).

Another attempt to make up for the gaps in Weber's theory is Parson's attempt to develop a theory of "social systems" (Habermas 1987). Parsons also takes Weber's action theory as his point of departure and gradually builds the notion of purposive-rationality into the imperatives of the "general action system" that are divided into Parsons' AGIL schema (adaptation, goal attainment, integration,

and latent pattern maintenance). Adaptation refers to the economic system where behavior is adapted to meet the needs of a fluctuating economy. Goal attainment refers to overarching objectives that need to be met for the preservation of the system (whether that be creating new jobs, lowering the trade deficit, investing in infrastructure, invading a country, etc). Integration again refers to how the system brings in individuals to perform the roles necessary for the preservation of the system. Finally, the L function refers to latent pattern maintenance, informed by cybernetics and Parsons earlier attempts at explaining the gap between voluntary chosen ends and the normative order of society.

Habermas utilizes a systems-theoretic approach along with the phenomenological idea of the lifeworld, essentially constructing a two level concept of society (Habermas 1987). Systems theory offers a corrective for the relativism that develops in hermeneutic analyses by providing an objective world that forms the background in which meaning is constructed and interpreted. However, he argues that Parsons' theory suffers from the same limitations as Weber. Parsons has attempted to correct Weber, resulting in several incarnations of his theory, first by building on Weber's action theory (and also incorporating Durkheim and Mead and other theorists); then emphasizing the primacy of cultural values to establish behavior patterns; later in his third phase, by emphasizing systems theory over action theory based on the notion of functional and social integration. Habermas argues that Parsons' move to systems theory only duplicates the gap in Weber's theory. Again this gap, or theoretical blindness, is rooted in a methodological orientation that analyzes social action and interpretation of meaning in terms of purposive-rational action. In Habermas' terminology this leads to an "uncoupling of system and lifeworld" meaning that the purposive-rational processes of systemic self-preservation gradually become detached from and eventually overwhelm the normative binding of the lifeworld. As systemic problems become more complex the lure of the "logic of success" takes precedence over the "logic of understanding," however this tendency becomes more severe as systemic crises increase, which is intensified by the decline of normative bonds.

The move towards systems theory is driven by the failure to ground Weber's action theory with the idea of a normatively binding social order. At this level of analysis, action is analyzed from the perspective of the self-preservation functions of the action system as a whole. Cultural values are interpreted as one subsystem that contributes to the preservation of the general action system by encoding the proper modes of acting and chosen ends as desirable and stigmatizing and sanctioning undesirable behavior. The cultural system interpenetrates with the other systems and mutually condition and reinforce each other, specifically: to adaptive patterns of behavior related to economic scarcity, to the goal orientations pursued by the state, and the integration of individuals into society and social roles. Desirable values would be correlated with the needs of the economy, the goals of the state, and the integration of society. In this schema the preservation of the social system becomes the overarching goal to which subsystems (the economy, polity, cultural values) contribute to the preservation of the system as whole. Once a specific pattern of adaptive, goal-attaining, and integrative behavior prevails in the action system, the L function preserves this pattern, again by encoding cultural values that lessen the amount of coercion necessary to preserve these systemic states. The cybernetic aspect comes into play by the self-perpetuating motion of the action system as a whole under the AGIL form. Mass media in modern society would then obviously perform the pattern maintenance function by encoding the appropriate forms of behavior as desirable which tend to contribute to economic adaptation, legitimizing the goals of the state, and to facilitate social integration.

The major concern pursued by Parsons throughout his career (and by Weber and every other theorist) revolves around how the values conducive to the preservation of the action system are internalized by acting subjects capable of freely choosing their own subjective ends. Parsons has to provide an argument for how subjects acting out of self-interest will adopt values that will also serve the functional imperatives necessary for the preservation of the system. The strategic orientation of Weberian action theory is what led to Parsons moving away from action theory in his later years,

precisely because of the repeated frustrations of finding a plausible explanation for social order on this basis alone, however at the systems level, strategic orientations are preserved and expanded. Habermas argues that Parsons fails to make a convincing argument because like Weber he does not analyze social action from the perspective of a process of reaching understanding among rational subjects. Besides forming the foundation of modern social science, the Weberian and Parsonian systemic orientation is what is behind the constructivist tendency to conflate ideas and institutions, in other words, from this perspective ideas tend to be viewed only as a functionalist variable which are important only to the extent they complement dominant institutional forms, or help consolidate the development of emerging institutional patterns. Ideas have no real force as constructs of linguistic meaning based on implicit validity claims, they are convenient fictions that serve purposive-rational interests that take shape in the institutions of society.

As it applies to trade discourse, this creates the assumption that many aspects of the discourse are strategic and are oriented to creating certain perlocutionary effects in the audience (i.e. support for sanctions) it is addressed to in order to further the goals of the interests who create this discourse. Communicative action can be used in this case to categorize the various speech acts depending on their constative, regulative, or expressive illocutionary content and determine which types of acts are more prevalent in this discourse (i.e. are claims for sanctions based more on constative, regulative, or expressive acts). Communicative action also provides the means to initiate a process of argumentation to evaluate the claims put forward in the various constative, regulative, and expressive speech acts that make up trade discourse.

After developing a framework based on communicative action, keeping in mind the limitations of other approaches it is now possible to outline the methodological approach to studying the media. Analysis of discourse will follow a three-step process. The first step is to reconstruct these conflicts as mediated through the lifeworld of political discourse, this will reveal the framing of these conflicts.

Second, is to classify the various speech acts which make up the trade discourse as either imperative, constative, regulative, or expressive acts, isolating these characteristics will reveal the framing of discourse, or the definition of the situation. The third step is to reconstruct and analyze the validity claims that constitute discourse. This requires then analyzing the reasons on which statements are based on and taking a yes or no stance on the claims put forward. If the acts are constative, the question arises is there objective evidence that is being excluded or concealed that might qualify or alter the claim put forward? If the claim is regulative, does the claim actually refer to accepted normative standards? For example, if it is claimed that China is undervaluing its currency by 40%, is there evidence to the contrary that is not taken into consideration? Since free trade tends to be a normative standard taken for granted among many Americans, if there is a call for departing from this stance what are the reasons given for doing so? Arguments like these are open to the kind of rational analysis Habermas has in mind. To a lesser extent, the expressive notion of sincerity is crucial but in this context, sincerity is easier to detect by analyzing the objective and normative conditions under which speech acts are made.

### **3. Trade Conflicts with Japan: 1980-1990**

#### **I. Introduction**

The first case study will analyze trade discourse with Japan in the 1980s and early 1990s. The selection of Japan as a case study is important for several reasons: The first is that the advantage of hindsight is available making it easier to evaluate discourse. It is clear that policy responses to deal with the Japanese trade deficit were a failure. This makes it easier to detect the faulty assumptions policies were based on. Secondly, for the most part, the same arguments are used to frame trade conflicts with China. This suggests a retarded institutionalized learning process in public discourse. The third reason is that Japan lends itself well to a comparison with China for its similarities and striking differences. Many of the trade issues relevant to the U.S.-China relationship parallel earlier trade conflicts with Japan (e.g. cheap imports, export barriers for U.S., currency appreciation). The most striking differences are that Japan is a close ally and a pivotal partner in U.S. national security strategy, China is not.

It is important to keep in mind from the outset that, fundamentally, all attempts at balancing the trade deficit with Japan were a dismal failure and policies enacted by the U.S. usually made the problem worse. In hindsight, it is easy to say that policies were short-sighted and reactive, yet, it is important also to grasp the deeper explanations for such a systemic failure stretching over so many years, continuing into the present. Why then has the U.S. not been able to evolve a more comprehensive, long-term approach for dealing with trade issues and the severe social consequences, despite even the occasional calls for such an approach? Through analyzing trade discourse certain explanations can be inferred as to the nature of punitive policy responses toward Japan:

1) In the late 1970s and early 1980s, there was significant debate over the idea of industrial policy as American manufacturing started to decline in terms of competitiveness. The Left was divided over the issue of industrial policy and lacked a strong rhetorical message that would frame the issue of

economic decline around the idea of long-term planning and structural reform. Certainly, a more unified Left would at least have been able to expose the glaring inconsistencies of the Reagan administration that mouthed a strong free-trade stance, but repeatedly departed from this stance during the decade, all of which added to the problem and resulted in the highest budget and trade deficits in U.S. history at that time. Yet, the Left was also ineffective at framing an attack on the economic record of the administration. At the same time, pressures generated from Democrats in Congress required that some response had to be made; the result was reactive and episodic responses that failed to have any substantive effect on reversing the losses to American industry.

Divisions in the left stemmed from the hegemonic status of free-trade ideology in American public discourse, this has the effect of delegitimizing calls for industrial policy. Arguably, the hegemonic status of free-trade ideology, more commonly known as neoliberalism or the Washington Consensus, only became fully consolidated in the post-Cold War era, the process of this consolidation was thus ongoing in the early 1980s, and still had to dispense with the legacy of the New Deal era which to an extent legitimized limited intervention. However, even with the New Deal ideology the idea of free trade was always affirmed -- albeit a different meaning of free trade than from later neoliberals. Besides the influence of the New Deal, the pressures of several years of sluggish economic performance allowed at least a partial opening to some new ideas (industrial policy) and a certain willingness to emulate the examples of other successful economies like West Germany and Japan. However, this window of openness was slammed shut as the decade wore on. The deep framing of free trade as an ideal in all aspects of American political discourse reveals its hegemonic status.

2) In order to force a departure from free trade norms, a “state of emergency” had to be declared. In this case, this took the form of “Japan Inc.” as an existential threat to the American way of life. In media discourse, themes of death and imploding empires were common when talking of “deindustrialization” in the U.S., as well as blatant racism towards the Japanese. In another context,

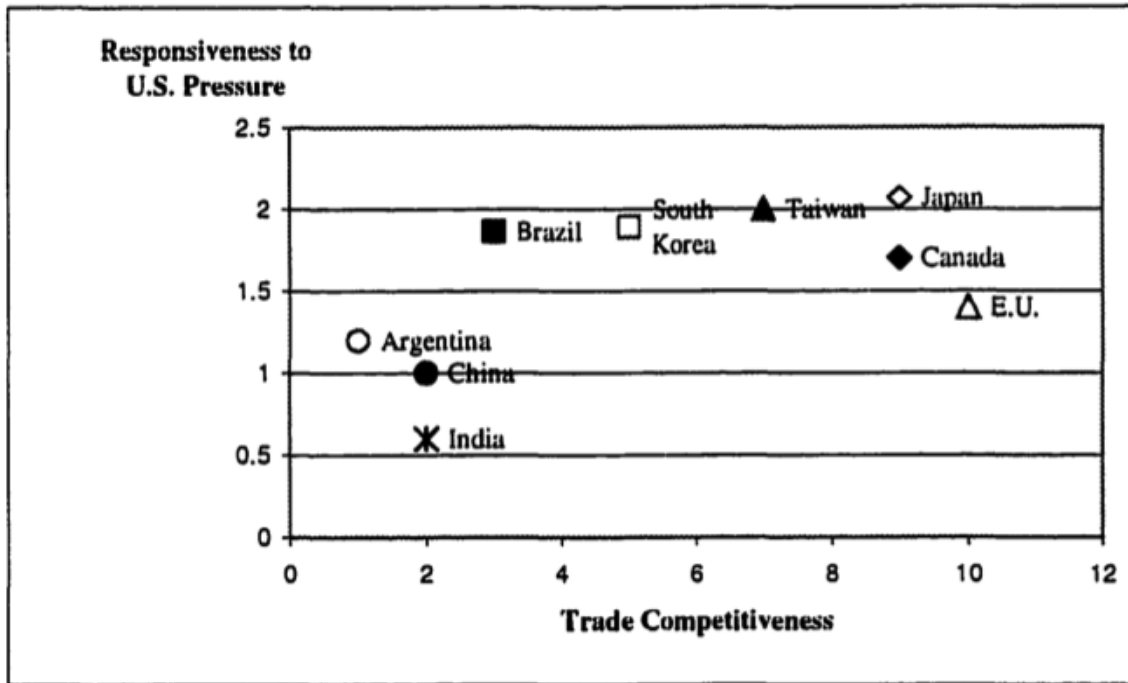


where government intervention is a more routine matter, legitimizing interventions does not have to resort to such histrionic displays. Since the frequency of these interventions in the economy has become more common, this means, in the U.S. at least, that this kind of existential threat must be almost constantly invoked in order to justify the exceptional means used to deal with fairly normal problems.

The liberal market institutions of the U.S. do not seem conducive to developing the kind of industrial policy characteristic of major trading states like Germany and Japan. This creates the perception for U.S. policymakers that the industrial policies of Japan are illegitimate, and limits the acceptable policy alternatives to deal with domestic losses from trade. In other words, liberal market institutions prevent the implementation of more progressive policy alternatives and thus only permit the use of tariffs and sanctions to address trade conflicts. Pressures to raise tariffs are generated from aggrieved interests who resort to strategic means in discourse to compensate for the limited alternatives to dealing with the negative consequences of trade.

In the case of Japan, what also needs to be explained is the absence of trade war, despite instances when the U.S. has unilaterally imposed sanctions or import quotas that were negotiated with the Japanese government. In other words, what factors mediated conflict between the U.S. and Japan? Of all of the major U.S. trading partners, according to Zeng, Japan is the most compliant, more than the European Union, or Canada, among competitive states and much more than China who has a complementary structure of trade and is among the least compliant partners.

Figure [3.1]



Source: Zeng 2000, p. 102

Zeng argues that states with a more competitive structure of trade are more likely to bargain aggressively with their partners that should make threats more effective, but should also make trade wars between democratic states more likely. However, what stands out in the Japanese case is the high level of conflict and competition, but the absence of retaliation by the Japanese even after the U.S. has imposed sanctions. The U.S. has had three trade wars with Canada in the 1990s, for example, and none with Japan in either the 1980s or 1990s, yet both states have a competitive structure of trade. Japan is an important strategic ally for the U.S. and Canada is not, furthermore, Japan is also highly dependent on the U.S. for security and Canada is not. It would seem that examining the structure of trade between states does not take into account the full range of factors influencing trade policy, clearly Japan's strategic interest to the U.S. and vice-versa must be a moderating factor in trade conflicts, and to some extent works to diffuse tensions. Furthermore, Zeng limits her analysis of trade conflict to the threat of

sanctions and trade wars, but does not look at other means of moderating trade conflict like "voluntary" import restrictions or currency revaluation as a means of resolving trade conflicts with Japan.

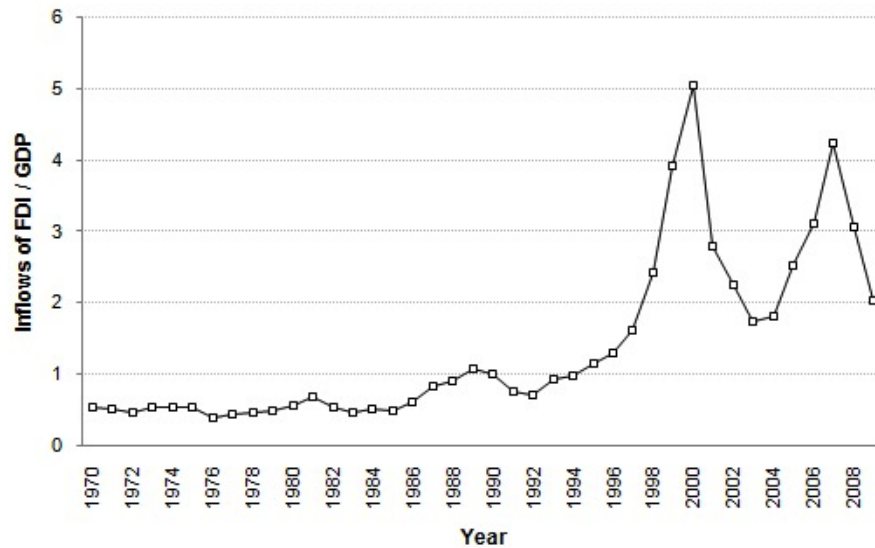
Determining the economic and political motives for issuing sanctions cannot be revealed by restricting analysis to the dynamics of the international system.

After World War II, the normative establishment of free trade was firmly entrenched, although this was qualified by domestic welfare considerations, what Ruggie called "embedded liberalism" (Ruggie 1982). Drawing on Polyani's idea of the "socially embedded market" Ruggie argued that post-war planners sought to establish an open trading regime institutionalized in GATT and other post-war international institutions established for this purpose, while however maintaining capital controls to limit capital investment within national boundaries and a strong Keynesian fiscal policy by the state in order to maintain certain social welfare rights and to stimulate growth. The normative basis of free trade is encoded in the text of the General Agreement on Tariffs and Trade (GATT) signed in 1947 and remained in effect until the World Trade Organization (WTO) was created in 1995. The original GATT is for the most part incorporated in the new treaty, and in its preamble lays out the normative basis of trade as a means of achieving prosperity, defined here as full employment and rising real incomes.

"Recognizing that their relations in the field of trade and economic endeavour [sic] should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods." The original GATT and GATT 1994 both incorporate explicit rules against dumping and tariff barriers. Frequently claims against Japanese trade accused Japan of dumping products and maintaining barriers to exclude foreign imports from its own markets. Beginning with the original Geneva Round in 1947, nine rounds of tariff negotiations have been held with the goal of reducing trade barriers, although the most recent, the Doha Round has been stalled for over ten years due to conflicts between developed states and late-developing states.

The system of managed free trade faced increasing challenges in the 1970s as the rate of growth of the advanced democracies slowed and standards of living declined. The collapse of the Bretton Woods system led to the abandonment of the “gold-dollar” standard, leaving currencies to float in value in the foreign exchange market. At the same time, capital controls were abolished allowing for the free mobility of capital across national boundaries leading to a dramatic increase in foreign direct investment as a percentage of the gross domestic product (GDP) that exploded during the 1990s after the end of the Cold War. Foreign direct investment (FDI) flows are highly volatile, however, and are highly sensitive to economic recessions as seen in the aftermath of the Asian financial crisis in the late 1990s and the economic crash of 2008 leading to equally dramatic drops in the flow of foreign capital. As a consequence of this, the symbiotic relationship between American capital and American manufacturing was severed as capital was now channeled increasingly into overseas investment.

Figure [3.2]



Source: World Bank

The sea change in normative views on trade after the 1970s, however, does not take into account departures from the free trade norm prior to this, for example, the so-called "chicken war" of the 1960s with the European Community. In reality, throughout American history the tariff issue was highly contentious (Northrup and Prange Turney 2003). Alexander Hamilton advocated mercantilist policies in his "Report on Manufacturers" arguing the necessity of protection in order to spur domestic industrialization, an idea carried over by the later Whigs and Republicans (Crane and Amawi 1997). In 1974, in response to increasing pressures on U.S. industry, Congress passed the Trade Act of 1974, among the most important aspects of the law was Section 201, covering imports, and Section 301 regarding market access for U.S. exports, providing a legal framework for punitive policies. The cases of autos and steel are relevant to Section 201, and semiconductors and the later "Super 301" relate to Section 301. Section 201 allows investigations to determine "serious injury" done to American industries, though not technically "dumping" as defined by the GATT (19 U.S.C. § 2251). Despite

being in contradiction with international trade law, the U.S. argues the legality of this in reference to what is known as the “escape clause” in Article XIX of GATT that allows a country to temporarily suspend its GATT obligations when threatened with serious injury from foreign imports (ITC 2015). The Trade Act also introduced the Trade Adjustment Assistance (TAA) program which provides for non-punitive responses to trade conflicts, like unemployment, health insurance and job training, however, many consider it to be underfunded and inadequate, despite several amendments, most recently The Trade Adjustment Assistance Extension Act of 2011, as well as negotiations over the TPP (19 U.S.C. § 2318; Reich 2001; Labor 2015; Ways and Means 2015).

At the same time in which the structural weaknesses of the U.S. economy are becoming more obvious, Japan is going through an “economic miracle” (Vogel 1979; Johnson 1982). Rebuilding from the devastation of World War II, Japan’s GDP quadrupled between 1958 and 1973 (Ito 1996). By the 1970s, Japanese industrial imports were competing with the U.S. (by the 1950s quotas had already been levied on Japanese textile imports), however trade tensions between the U.S. and Japan reached there peak in the 1980s, and continuing into the early 1990s (LaFeber 1998). Tensions continued to escalate, lasting until Japan went through its own recession and the beginning of the “Lost Decade” (now sometimes referred to as the “Lost Two Decades”) (Ichimura 2012).

In the following sections I will reconstruct the framing of discourse around trade conflicts with Japan over imports of steel and autos in the early 1980s and claims that Japan unfairly excludes imports from its markets over the debate on semiconductors. I will also examine the debate over the yen culminating in the Plaza Accord in 1985, and the use of the "Super 301" provision in the Omnibus Foreign Trade and Competitiveness Act in 1988. I will examine the punitive nature of these policies and explain them in reference to communicative distortions resulting from the deep framing of free trade norms that produce the following distortions: 1) a lack of policy alternatives other than what is legitimized by free trade ideology; 2) a divided left that lacks a substantive critique of right-wing

policies; and 3) the necessity of the construction of an existential threat, in this case Japan Inc. used to legitimize punitive policies. In the first conflict over autos I will examine the divided left on the issue of industrial policy, since it is only during this period when there was a significant discussion of the idea of industrial policy, before turning to emphasize the framing of the existential threat of Japan in other trade conflicts.

## **II. Auto Quota: Industrial Policy**

In 1981, after extensive debate during the Carter administration, the Reagan administration placed import quotas on Japanese autos, also known as "voluntary export restraints" (VER). This was done in part to head off the "Section 201" investigation launched by the International Trade Commission (ITC). Auto quotas were applied to Japan limiting the import of cars to 1.68 million units for a year, lasting originally until 1984 but extended throughout the decade to 2.3 million. Quotas caused U.S. auto prices to increase from \$750 to \$1,000 in 1984-85 (Crandall 1987). According to the Bureau of Labor Statistics, the trade deficit declined slightly in 1981 but unemployment increased from 7.1 in 1980 to over 8 percent in 1981. The trade deficit increased again during 1982, more than doubling the following year, and unemployment started to fall again. Due to the rapid fall of the dollar after 1985 the quotas on autos became largely irrelevant and failed to reduce the value of the trade deficit that had climbed to over \$120 billion in 1985 from just under \$20 billion in 1980 (Census 2014).

A precedent for intervening in the auto industry had already been set by the massive 1.5 billion bailout of Chrysler in 1979. In the 1970s the auto industry in the U.S. had declined significantly owing in part to oil embargoes that revealed the inefficiencies of U.S. products, compared to smaller Japanese cars, as well as high interest rates that made car loans more expensive. In the 1990s, sales of the major auto manufacturers rebounded somewhat, but due almost exclusively to sales of environmentally hazardous "sport-utility vehicles." The underlying weaknesses of the auto manufacturers were revealed

again during the financial crisis of 2008 when a 13.4 billion loan was given to Chrysler and GM, the largest bailout in history (Rothschild 2009).

The failure to deal with the deeper structural weaknesses of the auto industry, and the failure to balance the trade deficit, even in the short-term, can be attributed to the reactive nature of such a policy, one that deals only with surface phenomenon, but does not get at the underlying issues that create the problem. In many regards, though, the choice of acceptable alternatives in the “policy tool-kit” was limited. This is due to the ideological commitment to free trade that legitimizes non-intervention. In practice, the Reagan administration intervened in trade and other economic issues repeatedly. It would appear that pragmatism forces a kind of “shadow” industrial policy (or perhaps “weak” as opposed to “strong”) even if it is not expressly acknowledged (Reich 1982).

The Reagan administration’s claim that negotiated quotas on exports do not constitute intervention because they are not tariffs lacks substance, and seems to be a semantic game at best. However, advocates for industrial policy in the Democratic Party failed to generate legitimacy for industrial policy, even given the relatively favorable circumstances for the acceptance of such ideas: namely, the dire economic circumstances faced by American industry in the 1980s, the tradition of New Deal intervention, and the track record of accommodations made by the Reagan administration that prove intervention was unavoidable. Yet, despite favorable circumstances for the acceptance of industrial policy, advocates failed spectacularly in generating support for this idea from the general public. By the mid 1980s, the idea had all but disappeared from public discourse, until the Bush recession of the early 1990s when it made a brief resurgence, only to die again during the Clinton administration. Despite the repeated departures from a free-trade stance the Reagan administration consistently expressed strong rhetoric for free-trade. Among Democrats, however, there appeared to be more fragmentation over the idea of industrial policy and this fragmentation likely contributed to the failure to generate support for this approach. First, not all Democrats believed in the idea of industrial



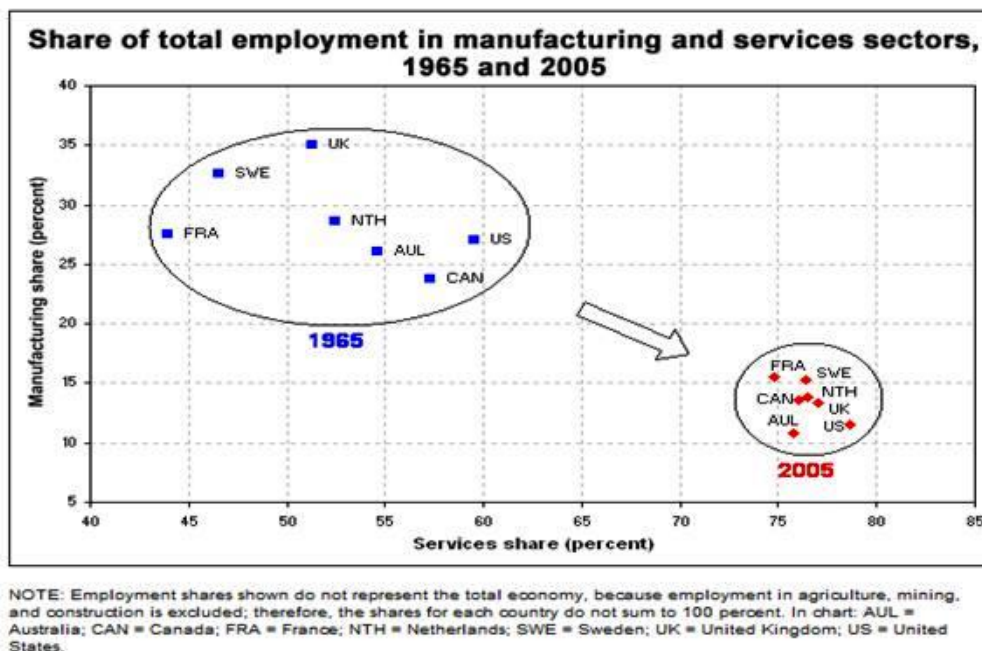
policy, and even among those who did there was further division between those who favored industrial policy to revitalize older traditional industries, and those who favored policy to establish newer high-tech industries. The failure to achieve any kind of consensus over industrial policy (even limited only to the Democratic Party) prevented any kind of policy-response other than the ineffectual and reactive policies of quotas and “voluntary restraints.”

Among attempts to frame the economic crisis of the 1980s by progressives, the term “deindustrialization” was most common. Deindustrialization was coined by economists Barry Bluestone and Bennett Harrison in their book *The Deindustrialization of America*, first published in 1982 during the depths of recession. The main cause of deindustrialization, according to them, is the “unfettering” of capital, which prior to the 1970s were limited by export controls in order to keep capital within national boundaries. Bluestone and Harrison argued that permitting too much capital mobility allows capital to be drained out of productive enterprises and funneled towards unproductive financial speculation and foreign investment. They were careful to head off the tendency to scapegoat Japan, and stress the mobility of capital more than the trade deficit as the major cause of deindustrialization, however, they unquestionably interpreted the deficit as a negative phenomenon -- albeit seeing it as more of a symptom of the disease, not the cause.

Prior to Bluestone and Harrison, a large literature on “post-industrial society” (i.e. an alternative framing) had developed in the last decade (Bell 1973). Like similar claims today celebrating the “knowledge society,” the “information economy,” or the “flatness” of the globalized world (Friedman 2005), the coming of post-industrial society in the 1970s emphasized two key attributes of the new economic structure: the importance of information to facilitate transactions, and the growth of the service sector over traditional manufacturing. A related term, post-Fordism refers to the transition from centralized industrial production to a more diffuse process of production characterized by multinational supply-chains (Amin 1994). In a post-Fordist economy services and manufacturing are linked through

the global division of labor where the most developed economies specialize in the design, marketing, and retail of products, i.e. service industries, which are in turn manufactured in "newly industrializing countries" (NICs) that exploit cheaper sources of labor. The theory of post-industrial society draws empirical support from three-sector economic theory developed by Colin Clark and Jean Fourastié, who argue in less developed societies the primary sector (raw materials) comprises the majority of the national income of society and employment, as societies develop the secondary sector (manufacturing) dominates followed by the tertiary sector (services) at the highest level of development (Clark 1940; Fourastié 1954).

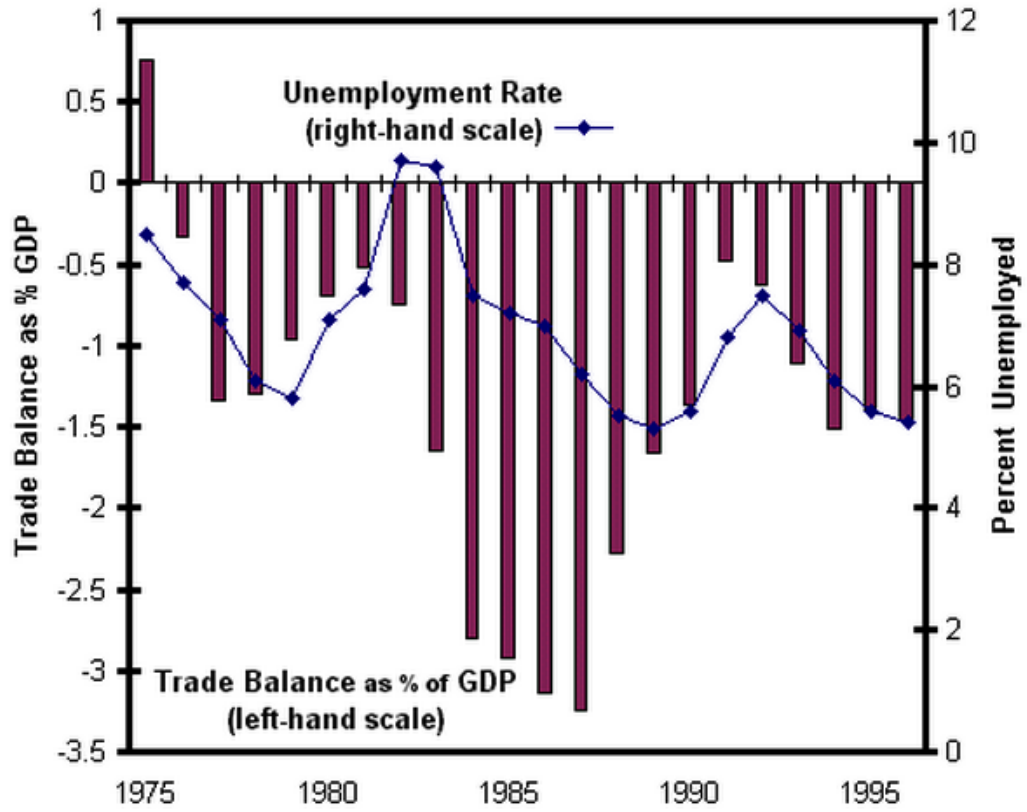
Figure [3.3]



Source: U.S. Bureau of Labor

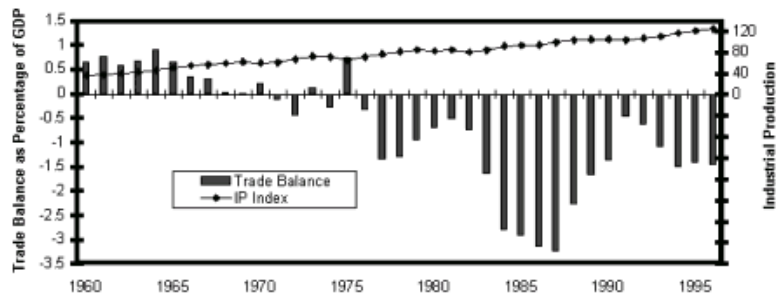
The framing of post-industrial society or post-Fordism, challenges the framing of deindustrialization. According to Daniel Griswold of the Cato Institute, a higher trade deficit is correlated with lower levels of unemployment and higher levels of production (Griswold 1998). Griswold argues that the negative implication of the growth of imports is misleading, and in fact high levels of imports are an indication of a healthy economy. Rather than subtracting imports from exports, Griswold argues that imports and exports should be added together to determine the strength of the economy. Overall, the U.S. is the second largest trading state in terms of imports and exports after China. According to his data, when the trade deficit is larger unemployment is lower, and when the deficit contracts unemployment goes up. Griswold also shows that contrary to the claims for deindustrialization that industrial production continued to increase, even as the deficit expanded, although this does not take into account factors like automation. This would lend support to the view that imports provide a benefit for production by creating greater efficiencies and freeing up resources to be used in more productive ways.

Figure [3.4]



Source: Daniel Griswold, "America's Maligned and Misunderstood Trade Deficit," *Trade Policy Analysis No. 2*, Cato Institute, 1998, Web

Figure [3.5]



Source: Griswold 1998, Web

Bluestone and Harrison's most effective argument was to point to the decline of real wages (a point on which Griswold is silent) as one negative indicator of deindustrialization. However, the use of GNP instead of GDP might distort the picture, since the GDP incorporates foreign companies that operate in U.S. territory. More damning to their argument is the increased productivity in manufacturing. It would appear that the U.S. is still industrial and so the claims for a post-industrial society seem also to fall short of the mark.

Deindustrialization was closely linked to calls for industrial policy which was in fact modeled after the successes of Japan and European states which had implemented such policies and associated in the U.S. with thinkers like Robert Reich, Lester Thurow, John Zysman, Barry Bluestone, Bennett Harrison, Chalmers Johnson, and Ezra Vogel and shared by key figures in government including most leading Congressional Democrats, even Reagan Commerce Secretary, Malcolm Baldrige and Frank Weil who served in Commerce during the Carter administration and is generally credited with coining the term industrial policy. Industrial policy ideas ranged from tariffs, to subsidies and financing for

industrial enterprises, government financed research and development, to investment in education and training programs. Most of these ideas were and are used by U.S. policy makers, yet industrial policy implies a coherent and strategic approach with definite targets and goals that is lacking in U.S. economic policy. In the 1980s industrial policy ideas developed to the point it could be considered a "policy paradigm" as defined by Hall, albeit an alternative paradigm that never displaced the dominant paradigm of free enterprise (however pragmatic its actual implementation). For example, Ezra Vogel's *Japan as Number One: Lessons for America*, took a very favorable look at the Japanese economic "miracle" and argued the key to Japanese economic success were economic and political institutions that were able to facilitate a consensus among government bureaucrats, corporate managers, and labor. The subtitle lessons for America clearly indicates the intent of the book, it is not meant simply to praise the Japanese economic system but to derive practical policy recommendations to strengthen the American economy, as this review of Vogel's book says: "The cowboy ethic of the American expansion was unquestionably individual, and the potential for individual gain was the prime mover. Some even argue that the contemporary stagnation of the American system is evidence of the fact that the cowboy ethic no longer applies. Could we-should we- now try to emulate Japan as other nations once emulated us? If so in what ways?" (Duncan 1981, p. 512).

Industrial policy was seen as a way of breathing life back into the country and strengthening strategic industries wedded to the concept of national security. This idea ultimately failed to become institutionalized in policy, and by the election of 1984 it had all but disappeared from the platforms of Democratic candidates. This failure can be explained in part by the ideological division on the left between industrial policy advocates, split between those who favored "reindustrializing" older industries like steel and autos, and those on the left who favored newer, high-tech industries, dubbed "sunrise" industries as distinct from older "sunset" industries (and partly an acknowledgement of the "land of the rising sun" as a model).

Frank Weil, the Assistant Secretary of Commerce during the Carter administration, and currently a contributor to *The Huffington Post* (as well as like most of the experts cited a member of the Council of Foreign Relations), wrote in an editorial for *The New York Times*: [1.Mr]"Automobile industries are basic to industrial society and can't be left entirely unprotected" (Weil, 7/13/80).

1. In the same article the chairman of Sony is quoted as saying "Automobile industries are basic to industrial society and can't be left entirely unprotected." The normative content comes from the assertion that the industry is basic to society and must be protected. Of course, this reinforces the mentality of "too big to fail." On the one hand, considering that over 90 percent of Americans drive to work and only 5 percent use public transportations, this seems to be true (Rothschild 2009). However, this discounts the possibility of large-scale investment in public transportation. For example, Emma Rothschild argues, that "a bailout organized around urban and public infrastructure would be inclusive, in that it would provide opportunities for people who have had the fewest chances in the new economy of the last thirty years, and who have suffered most from the new inequality of income, wealth and amenities" (Rothschild 2009, web). Yet, by framing the argument in this way, Weil discounts the possibility of such a radical transformation.

Weil argues that the obvious necessity to protect auto industries does not have to translate into "short-sighted protectionism." Weil, like most commentators, frames his idea as a pragmatic accommodation between two opposing sides, both of which he sees as flawed. On the one hand there are those, who Stiglitz would refer to as, "market fundamentalists" that adhere dogmatically to an idea of a free market that has never existed (Stiglitz 2002). Weil argues this position reveals great hypocrisy, especially so soon after the Chrysler bailout of 1979. On the other hand, he does not want his policy idea to be seen as a short-sighted moralistic position, but based on sound economic wisdom:

[1.Mc] It is amazing how chic it still is today in the United States to defend the pure virtues of international free trade to allow noncompetitive industries to adjust on their own or expire, even after the Chrysler intervention. [2. Mc] It is almost equally popular with another group to take

the flip side of that coin and argue the need to protect jobs absolutely without regard to the expense of higher consumer prices (Weil, 7/13/80).

1. Free trade ideology was decisive in framing the Chrysler bailout. More precisely, it was used to justify the concessions made by auto-workers. Judith Miller of the *Times* declared “there was widespread agreement...that workers must make sufficient ‘sacrifices’ to help their employer recover” (Eley 2008). Another *Times* editorial argued, “The possibility of corporate failure is crucial to the health of the free economy. Without the market’s discipline, incentives for efficiency and innovation disappear.” The United Auto Workers (UAW), under intense pressure from Democrats in Congress, allowed Chrysler to defer \$200 million to its pension fund, and allowed the company to use almost its entire \$850 million pension fund as part of a loan to Chrysler. The union later conceded \$462.5 million in wage cuts and other benefit concessions (Eley 2008).

2. Weil argues that protectionist ideas are, in some circles, equally fashionable, but similarly flawed. Democrats by the end of the 1970s had repeatedly come under attack for the economic stagnation of the decade despite their attempts to help the disadvantaged, and so many Democrats like Weil found a need to justify their policies based on supposedly sound economics. This suggests the transition at the end of the 1970s to what Hall refers to as “policy paradigms.” The previously dominant Keynesian paradigm (more receptive to unemployment and the need to protect jobs) is being supplanted by the neoliberal paradigm (Hall 1993).

"Industrial policy" was a term developed by Weil as a catch-all category to describe the mélange of policy ideas, like economic planning and Japanese-style consensus forming institutions, being experimented with at this time to reverse the economic stagnation of the U.S., as he continues in the editorial:

[1. *M<sub>r</sub>*] The real solution lies in a plan, a vision, and the time in which to make it happen. [2. *M<sub>c</sub>*] What we are missing in the United States is a clear idea of where we want to be with our



basic industries, including automobiles, at the end of the decade and century. [3. *Mc*] We are also missing any kind of consensus-finding process among our many disparate communities who are so vitally affected by our industrial health or illness. (Weil, 7/13/80)

1. In the post-war era calls for a plan for industry went back to President Eisenhower's Commission on National Goals. President Kennedy had emphasized planning in the race to the moon, and President Nixon had advocated a "national growth policy" (Faux 2009). Reich argues that every administration since the Coolidge administration has formed committees composed of government, business and (sometimes) labor to formulate plans for economic development (Reich 1982). The pragmatic necessity of formulating a plan for industry transcends partisan divides, however the major impediment comes from the entrenchment of free trade ideas. Weil's call for a plan underestimates the extent to which free trade norms block the articulation of a plan, simply put, it is "easier said than done" when all legitimate policy responses are framed by free trade norms.

2. In this statement, Weil, again, emphasizes that the U.S. has no clear plan of where it wants to go with its industries, including of course automobiles. Planning is a form of teleological action that is consistent with dominant ideas in U.S. and Western culture. However, the idea of a planned economy has become synonymous with the economic systems of socialist and communist regimes, and has a negative association with the American public. More than thirty years after this article has been written, American industries still have no long-term planning, and many like the auto industry are still struggling to compete, as well as still dependent on government assistance (Rothschild 2009).

3. Weil frames his argument around ideas like "pragmatism" and "consensus" but this conceals the extent to which the distortions of free trade ideology prevent the formation of a rational consensus over this idea. Only when the limits of free trade framing are exposed as irrationally distorting the deliberative process, can a rational consensus emerge.

The institutionalization of a plan, or industrial policy, would in all likelihood increase tariffs on Japan in order to promote American industries (this is supposedly different than protecting). Weil

moderates this claim, which again has to contend with the institutionalization of free trade ideology, by suggesting the relatively minor consequences of this approach:

[1. *Mc*] A discriminating and short-lived process could avoid disrupting Japan's economy, and would buy time to make it possible for our auto industry (whatever it may be) to have a chance to toddle, walk, and maybe someday run. [2. *Mc*] There is time while the International Trade Commission is speeding up its deliberation on the "injury" question to get a preview of our national automotive vision so that the executive branch can then tailor a moderation program to fit that vision. [3. *Mr*] That approach is neither free trade nor protectionist. Yet, if a label is helpful to policy making, it could be called visionary pragmatism (Weil, 7/13/80).

1. This later took shape as voluntary export restraints, or more accurately import quotas placed on Japanese autos. As mentioned already, this did little to reduce the trade deficit or stimulate the U.S. auto industry to be more efficient.
2. At the time the article was written, the International Trade Commission was deliberating on the idea that Japan was unfairly dumping auto products to determine if it had injured the U.S. auto industry. It later concluded it had not. This did not prevent the Reagan administration from enacting quotas the following year. Again, the "vision" Weil speaks of cannot be developed when free trade norms frame every economic debate.
3. Weil reframes his approach as pragmatic accommodation between ideological extremes. The right adamantly rejected all calls for industrial policy, and the Democrats followed, although the Reagan administration did utilize some of the proposed policy tools like the quotas on autos.

Another article from the *Times*, "Designing a New Economy for the Atari Democrats," addresses the debate on industrial policy by focusing on Robert Reich, later Secretary of Labor in the Clinton administration, and the group that became known as the "Atari democrats" and later "New democrats." Even among supporters of industrial policy there was fragmentation over what industries should be supported. The article examines the rift between industrial policy advocates like Bennett Harrison who favored "reindustrializing" and those like Reich that were advocates of newer "sunrise"

industries:

[1. *Mc*] Superficially, such talk about a new industrial policy could seem to be a recycling of the vague reindustrialization policies championed by the Carter Administration. [2. *Mr*] But, when the Commerce Department then talked about reindustrialization, it appeared to many that the White House was proposing a rather static plan to protect sick industries. [3. *Mc*] Mr. Reich is not advocating life support systems to dying industries at enormous cost, but a careful process of encouraging the growth of new, profitable sectors (Wayne, 9/26/82)

1. Jeff Faux of *The American Prospect* argues that Carter was ambivalent to the idea of industrial policy, “Ideologically, he was a free-marketer....On the other hand, as an officer in the Navy’s nuclear program to power submarines, he had been involved with long-term strategic planning, and he certainly understood the role of government in maintaining his family’s peanut business” (Faux 2009). This ambivalence can explain the “vagueness” alluded to in the article. It was not until 1980 that Carter began to make a serious commitment to the idea of industrial policy with his “Economic Revitalization Program,” but with his defeat in that year’s election, nothing materialized from this attempt (Finegold and Skocpol 1995).

2. Within the Carter administration, Commerce, Labor and the Transportation Departments were advocates of industrial policy. On the other hand, State, Treasury, and the Council of Economic Advisers pushed the free trade line (Faux 2009). Again, the great division and ambivalence towards industrial policy, reflected here within the administration itself, effectively undermined any attempt at creating a substantive industrial policy

3. Reich argues in the *Harvard Business Review*, the same year this article is published: “we must face the fact that wrenching structural changes will have to be made in the economy if America’s industrial base is to regain its full international competitiveness. And these changes will, in turn, require a carefully drawn industrial policy both to encourage the flow of capital where it is needed and to ease the inevitable dislocations of the labor force” (Reich 1982). He goes on to say that industrial policy is more concerned with the allocation of capital, not the formation of capital that supply-side economics

emphasizes. The formation of capital is not the problem in the U.S., but its allocation:

Industrial policy focuses on the most productive *pattern* of investment, and thus it favors business segments that promise to be strong international competitors while helping to develop the industrial infrastructure (highways, ports, sewers) and skilled work force needed to support those segments. At the same time, by rebalancing regional growth and by assisting workers forced to retrain or relocate, it seeks to defuse the resistance to economic change likely to come from those who would be the hardest hit (Reich 1982).

The debate over industrial policy is not limited to left-wing “industrial policy” versus right-wing “supply side economics,” but within the Left itself, over those who favor protecting older industries, and those who favor more support for newer, less established industries. Reich is seen as belonging to the latter camp, as the article continues:

[1. *Mc*] "I have a great deal of admiration for Bob, but labor is his Achilles' heel," said Robert Kuttner, editor of the liberal Cambridge-based publication, *Working Papers*. [2. *Mc*] "If you switch from steel to semiconductors, you go from union to nonunion and I don't see how you can get Lane Kirkland to sign onto that bargain," he said, referring to the president of the A.F.L.-C.I.O. [3. *Mr*] Mr. Reich responds that he thinks he would win labor converts if labor could be convinced that job retraining was truly feasible and that displaced workers could indeed obtain new jobs in new industries (Wayne, 9/26/82)

1. Kuttner and Reich would later co-found The Economic Policy Institute (along with Barry Bluestone and others) in 1986 and *The American Prospect* in 1990. Ultimately, Reich’s policy proposals failed to resonate outside of academic circles. By the early 1990s, Reich’s call for industrial policy had moderated somewhat, instead focused on more conventional issues of social policy like education and taxation (Reich 1991).

2. For many years, the electronics industry was considered “unorganizable” in part due to the influence of large firms like IBM, Intel, and Hewlett-Packard. Robert Noyce of Intel once said:

Remaining non-union is an essential for survival for most of our companies. If we had the work rules that unionized companies have, we’d all go out of business. This is a very high priority for management here. We have to retain flexibility in operating our companies. The great hope for our nation is to avoid those deep, deep divisions between workers and management which can paralyze action (Bacon 1999, Web).

Noyce's comments are not all that different than arguments made by Henry Ford almost a century ago. Attempts at unionizing the semiconductor industry through United Electrical, Radio and Machine Workers (UE) in the 1980s met with tremendous resistance from employers and the shifting of production overseas. The UE is not affiliated with the AFL-CIO. The latter, much larger organization has also shown ambivalence in supporting the smaller, independent, and more militant union's drive to organize the industry (Bacon 1999).

3. Reich makes the counter-claim that his policies will not alienate the working class if job-training programs are a real possibility and there is institutional support to place workers in new jobs. Reich's more moderate tone after the 1980s still stresses job training programs and investments for education. The Employment and Training Administration was created during the Carter administration, as part of the Comprehensive Employment and Training Act, followed by the Job Training Partnership Act of 1982. Critics argue the pro-business structure and underfunding hindered the effectiveness of the law (Houck et al 1984). It was later repealed during the Clinton administration in 1998.

The debate over industrial policy within the left over "new v. old industries" continues in the article, here in this exchange between Bennett Harrison and Reich:

[1. *Mc*] Mr. Harrison specifically feels that Mr. Reich would funnel government incentives only to high-profit industries, while ignoring the large bulk of low-profit but labor-intensive businesses in mature industries that are gradually being squeezed out of existence. [2. *Mr*] But, he praises Mr. Reich as one of the few economists grappling with the issue of long-term structural change at a time when most other economists think only of short-term economic problems (Wayne, 9/26/82).

1. Again, the rift between "atari democrats" and "new deal democrats" is personified between Harrison and Reich. Harrison claims that Reich's policies would only help profitable industries with the assumption that more should be done to protect low-profit industries that employ many workers. Reich, on the other hand, argues that programs should be put in place to help transition workers out of these industries.

2. Harrison's critique is moderated somewhat by the shared Keynesian paradigm that is concerned with long-term structural problems. This also suggests a gesture of solidarity to a shared paradigm that is being displaced by the emergent neoliberal paradigm. Industrial policy marks a departure from, and takes a more radical stance than orthodox Keynesian macroeconomic policy. Despite their agreement on many issues, the failure of these left wing intellectuals to form a coherent critique of right-wing policies and a substantive agenda of their own, only led to the further consolidation of right-wing ideology in the 1990s.

Calls for industrial policy failed to resonate with the broader public. Industrial policy corresponds with the coordinated market economic type of states like Japan and Germany, not liberal market economies like the U.S. and the U.K. The entrenchment of free trade norms also made it difficult to generate support for what was seen as a radical stance. This also led to the division within the left, between those who supported industrial policy for older industries and for newer industries. The inability of the left to unify together around a critique of "Reaganomics" led to a tendency to invoke threats to the American way of life as the only means of generating support for protectionist policies, policies that were nonetheless limited in their effectiveness since they did not get at the root of the problem facing American industry in this period.

### **III. Steel Quota: Deindustrialization, Death and Racism**

In 1984, the Reagan administration signed an agreement with Japan to limit imports of steel to 18.5 percent of the U.S market. The specific mechanism through which this was done was through a Voluntary Export Restraint (VER) agreement signed by the U.S. and Japan, again in response to a 201 investigation. Imports of foreign steel accounted for over 20 percent of the market in 1982 from less than 5 percent in 1960. The quota caused the price of steel to increase. In 1979-80 the average price of steel in the U.S. was about the same as the market price in Antwerp, Belgium, by 1984-85 the price of

steel had risen by 25 percent (Pearson 2011). The government has used VERs to benefit the textile industry as early as the 1950s. Between 1969-74 similar restrictions were placed on Japanese steel (CBO 1984). Quotas and VERs are acceptable under GATT rules to protect troubled industries. In the late 1970s and early 1980s "trigger prices" were experimented with in order to prevent import prices from falling. By the early 1980s however, the U.S. steel industry was at its lowest level since the late 1940s. In 1982 the industry was operating at lower than 50 percent capacity and capital expenditures had declined significantly. Employment in the industry had shrunk by 40 percent since 1979 (CBO 1984). Unemployment nation-wide had peaked at 9.7 percent in 1982 (the highest since the Great Depression) (BLS). After the VER took effect more than 78,000 workers in the industry were laid off between 1984-92 (Lindsey, Griswold and Lukas 1999).

The Japanese miracle began roughly in the 1960s, and by the 1980s, Japan had a highly competitive trade structure with the U.S. Since 1982, the steel industry had filed antidumping cases and anti-subsidy cases (which would require countervailing duties) with the International Trade Commission (CBO 1984). Congress had tried to pass a Fair Trade in Steel Act but was unsuccessful. It was after the Bethlehem Steel Co. and United Steel Workers (USW) had filed a petition with the ITC the Reagan administration began to negotiate an agreement with Japan.

When the U.S. led world production, the extent of U.S. power was self-evident, (including producing almost half of the world's steel), for example, in this advertisement in *The Washington Post* from 1944:

The United States contains only about 6 percent of the world's population. But our national income, before the war, amounted to almost 25 percent of the world's income. Our national industrial output as a whole approximates 45 percent of world totals. We are now producing a like percentage of the world's railroad mileage; 25 percent of merchant fleet tonnage; 50 per cent of the world's telephones; 45 per cent of steel production; 40 per cent of aluminum production; 33 per cent of coal output. We are refining (though part of the production comes from imports) 55 per cent of the world's copper, and 70 per cent of its petroleum. We are now producing 50 per cent of the world's rubber (though post-war resumption of natural rubber production will sharply reduce this balance). Our shares of agricultural production are, of

course, much smaller, but just before the war we accounted for 35 per cent of world cotton production, 15 per cent of wheat, and 10 per cent of wool ("What Does America Want?" McGraw-Hill advertisement, *Washington Post*, Dec. 1944, in Sutton et al., 1962 p. 21)

The self-evident display of power, however, obstructed the development of self-awareness and a more reflexive understanding of the dynamics and contingent circumstances (most importantly, the decimation of Germany and Japan) underlying U.S. economic power.

With the steel industry, there is a clear emphasis on the strategic role of the steel industry rooted in World War II patriotism. For example, this testimony by the President of U.S. Steel from 1950 not only suggests that close relationship between the industry and the war effort, but there is the strong suggestion that in meeting all the challenges put forward the U.S. "owes" the steel executives for its support of the war effort:

It was only a few years ago—in the war years—that the government gloried in the size of its industrial giants and honored them for doing successfully the giant tasks—the almost impossible production tasks—that our national security demanded. It called upon the United States Steel to outproduce, single handed, all the Axis nations put together. We did it. It called upon our great research laboratories and our skilled technicians to design and to create such storybook miracles as a "portable" landing field for aircraft. We did so. It called upon our management to use all of its experience, ingenuity, efficiency and know-how, to build, to man and to operate vast new steel-making plants for the government. We did so. And the government sang our praises.

...After World War I those who had produced the weapons that defeated our enemies were denounced as "merchants of death." Today, after World War II, they are branded as "oligopolists" (B.J. Fairless *Business—Big and Small—Built America*, U.S. Steel Corporation, 1950, pp. 5-6. Statement in *Study of Monopoly Powers*, Hearings before the Subcommittee of the House Committee of the Judiciary (Celler Subcommittee) 81st Congress, 2nd session, Feb-Jul. 1950, Sutton et al, 1962 p. 24)

These views were legitimized by the government, for example, in the following excerpt from FDR's "Arsenal of Democracy" speech in 1940: "after the present needs of our defense are past, a proper handling of the country's peacetime needs will require all of the new productive capacity, if not more. No pessimistic policy about the future of America shall delay immediate expansion of those industries essential to defense. We need them." Although it is possible to interpret the meaning of the



statement as endorsing the transformation of the nation's productive capacity, the dominant interpretation has been to preserve the leading industrial enterprises at the time of the war.

In the 1970s, in the midst of recession, then President Ford, specifically refers to the heyday of American industrial might, although, strangely, conflating the crisis of the world at war, with economic recession, "I happen to believe that we can do it. In another crisis—the one in 1942—President Franklin D. Roosevelt said that this country would build 60,000 [50,000] military aircraft. By 1943, production in that program had reached 125,000 aircraft annually. They did it then. We can do it now" (Ford, State of the Union, 1975). The sentiment, "we can do it now" has been reproduced many times, in the form of calls for a "new New Deal" (Madrack 2003). However, so far, progressives have been unable to reframe the effects of long-term economic malaise into a persuasive argument for structural reform.

In the previous conflict over auto quotas, the issue of industrial policy divided the left, and provoked resistance from more conservative members of the Democratic Party. Divisions in the left allowed the right to frame the debate, delegitimizing progressive alternatives, and eventually imposing a shortsighted policy of quotas. In these articles on the steel conflict, the existential threat of Japan is manifested in various ways from poetic musings on deindustrialization to blatant racism and other forms of irrational violence against Japanese industries, like in the following *New York Times* article, "In Ohio, The Enemy is Japan":

[1. *Mc*] The reasons are as stark as the abandoned steel mills that cover this valley like tombstones. [2. *Mc*] A week ago, the Powell Pressed Steel Company in Hubbard closed its doors after 62 years. [3. *Mc*] At the huge G.M. Lordstown plant, there is talk of barring foreign cars from the parking lot.

[4. *Mc*] The budget crunch in Washington and the recession have only made matters worse here. [5. *Mc*] Every day, its another disaster: teachers fired; home health care services threatened; building permits declining.

[6. *Mc*] People here acknowledge that foreign competition is not the only cause of their misery.

[7. *Mc*] They blame the big steel companies, which refused to invest money to modernize their obsolete plants; the Federal Government, which only imposed costly air pollution control

requirements, and the unions, which escalated wage demands faster than productivity increased. [8. *Mr*] But import is the dirtiest word of all (Roberts, 4/25/82).

1. The reference to death here is explicit and reinforces the idea of an existential threat to the American way of life while also providing tangible evidence of the effects of deindustrialization.
2. The Powell Company was founded in 1920. This suggests the uncertainty and fear that long-established firms can still decline and die. The fate of this company parallels the fate of many of the larger steel corporations like Bethlehem Steel, once the second largest producer. The same year the VER was signed in 1984, Republic Steel, based in Youngstown Ohio, merged with J&L Steel to form a new company, LTV Steel. Many of the assets of these once powerful steel companies are owned by Luxembourg-based ArcelorMittal the largest steel company in the world, who now owns the assets of Inland Steel, Bethlehem and LTV (PR Newswire 2002; Kanter et al, 2006; Lusanne 2015). Only U.S. Steel, the largest steel producer of the top five producers still exists as an independent firm (and has also absorbed the sixth largest producer, National Steel). The seventh largest producer, Armco Inc. was later renamed AK Steel after taking on Kawasaki as a partner and investor in 1993 (CNN 1999).
3. The United Auto Workers (UAW) has maintained a long term “ban” on foreign cars from being parked in UAW lots (UAW 2010).
4. President Reagan cut spending to eight out fifteen federal agencies during his first term in office, and ten out of fifteen in his second term. (de Rugy 2004) Despite this, the budget deficit under the Reagan administration grew three times to almost \$3 trillion, as a result of tax cuts and increases in military spending, later forcing Reagan to raise taxes eleven times without ever restraining the growing budget deficit (Seitz-Wald 2011).
5. The highest cuts in the Reagan administration were to Housing and Urban Development (HUD), Commerce, and Labor (de Rugy 2004). Several scandals later arose over bid-rigging for HUD during the Reagan administration (Johnston 1989). In the present, continued attacks on public education have

characterized the records of recent Republican “stars” like Chris Christie and Scott Walker (Lachman 2015).

6. Although foreign imports are taken for granted as one cause of misery, it is not the only cause.

7. This reveals clearly how free trade norms frame this conflict. All the causes derive from this framing: the inefficiencies of corporations, environmental standards that raise costs, and, of course, unions.

8. Again, the limitations of free trade block off any further substantive discussion of the decline of these industries. With progress in these debates effectively sealed off, energy is instead diverted into the existential threat of Japan.

From the same article, the owner of the company, obviously a veteran of the Pacific, expresses statements which would have resonated with other veterans, as well as those feeling frustrated by the growth of imports: "James L. Daniell, the president of RMI Titanium, has no affection for the Japanese.

[1. *Mc*] 'They shot me down twice in the war,' barked the former Navy officer who lost two ships to Japanese shelling during World War II. [2. *Me*] 'I'd hate like hell to get shot down in peacetime'" (Roberts, 4/25/82).

1. Conservative columnist Paul Harvey spoke of an “economic Pearl Harbor” in regards to Japanese penetration of American markets (Wile 2014). However, the notion of a “surprise attack” that this comment implies, conceals from the understanding the fact that U.S. post-war prosperity was in large part made possible by the destruction of most of the rest of the industrialized world (especially Japan), and that once the rest of the world had rebuilt, then certainly U.S. prosperity would be negatively impacted in some regards.

2. The link between Japanese economic practices and previous militarism are another strong theme that runs through discourse.

In this article, the expression of passionate, irrational anger towards the Japanese is on full display, like the statement from Rep. John Dingell, who served in the House until 2015, replaced by his wife Debbie Dingell in the 2014 election, and lauded as having the longest Congressional tenure at 59 years: [1. *Mc*] "There was, for example, the recent statement before Congress by Representative John Dingell, Democrat of Michigan, that the problems of the American auto industry were the fault of 'those little yellow people'" (Roberts, 4/25/82).

1. The so-called "Yellow Peril" is an established racist framing that runs deep in American history (Métraux 2009; Yang 2015). In this case, this older racist framing is fused with the framing of deindustrialization to form a potent, and volatile framing that places the blame of deindustrialization on foreigners. Since, a more substantial critique of deindustrialization is not available given the limitations of public discourse, it makes it only more likely that discontent towards deindustrialization will be mediated through racist invective rather than substantive critique.

The article goes on to cite Representative Lyle Williams who also emphasizes the anger and frustration of his constituents: [1. *Mc*] "'People are starting to slit tires and throw rocks through dealers' windows,' said Representative Lyle Williams, the moderate Republican who represents the region. [2. *Me*] 'I can feel the anger, I know these people.'" (Roberts, 4/25/82)

1. Like previous statements referring to banning foreign cars from the parking lot, this statement also reveals the somewhat impotent rage of people who having no proper outlet for their frustrations or any institutional means of actually relieving their sources of anger have taken to vandalism.

2. Here Rep. Lyle takes a safer course, in signaling his empathy without giving any substantive content to what these feelings of anger might entail. However, Rep. Lyle does not acknowledge his own role in feeding this kind of anger by invoking this existential threat in his appeals to his constituency.

There were alternatives to this particularly volatile framing of steel imports from Japan. One

was to provide substantive evidence that imports were not the chief cause of the weakness in the U.S. steel industry. Another interpretation emphasized the cooperative nature between U.S. and Japanese industries. In the first instance, Charles Butler, representing another interest group, Japanese Steel Information Center (JSIC), who benefits from steel imports, offered a rebuttal to the volatile claims of the previous article in the *Times* op-ed piece “A Steel Scapegoat”:[1. *Mc*] “Such as Representative Lyle William's claim that 40 percent of steel consumed in the United States is imported. [2. *Mc*] The actual percentage last year was under 20 percent. And only 5 percent of the steel consumed in this country comes from Japan.” (Butler, 5/9/82).

1. Rep. Lyle is telling voters in his steel-producing constituency that 40 percent of steel is imported, an extremely large number.

2. The 201 case filed with the ITC requested to limit imports to 15% of the U.S. market (CBO 1984). According to the CBO imports made up 22% of the U.S. market in 1982, the highest level until 1984 when it reached 25% (CBO 1984).

Butler’s critique of Japan-bashing is able to effectively point out the shaky foundations on which these arguments rest. Another counter-point to the threat of Japan was to emphasize the cooperative nature of U.S and Japanese firms. For example in the *New York Times* article “Japanese Exporting Steel Technology, Too”:

[1. *Mc*] Rebuilding their industry from the rubble of World War II, Japanese steel companies imported equipment and expertise from their American counterparts. [2. *Mc*] The Japanese learned fast and well and this country now seems certain eventually to become the largest producer of steel in the non-Communist world.

[3. *Mc*] According to Japan Iron and Steel Federation, Japan's crude steel production will be 112 million tons this year. Output in the United States is expected to drop below 98 million tons (Tharp, 10/28/80).

1. Given the state of affairs in the 1980s it suggests a tragic irony that the advantages given to the Japanese are being used to drive American companies out of business. However, the reality of post-war

politics was to rebuild Japan as an ally in the Cold War. LaFeber shows that economic development was inseparable from national security strategy especially after the beginning of the Korean War:

The Korean War was to the rebuilding of Japan as the Marshall Plan was for rebuilding Western Europe. The long-term effects were terrific. Two of them were to shape American, as well as Japanese, lives for the rest of the century. First, Japan's most powerful business association (the *keidanren*, or Federation of Economic Organizations) and the government decided to work closely with the United States in importing and developing dual-use technology. Such technology could be used for U.S. and other's military needs while giving Japan an edge in exploiting civilian markets. For example, a struggling Mitsui factory making specialized steel products suddenly generated vast amounts of capital by becoming the nation's leading commercial arms producer (Lafeber 1998, p. 293)

2. Lieberman and Johnson argue that the decline of the U.S. steel industry can be traced to lack of investment, where in comparison the Japanese constantly increased investment in the industry and workforce (Lieberman and Johnson 1999). Japanese invested between \$100,000-\$250,000 in workers, where U.S. firms invested less than \$70,000 per worker in 1980 (pp. 16-17). U.S. capital stock later increased during the decade due to layoffs (p. 17). Furthermore, they emphasize the importance of MITI in encouraging labor-saving and productivity increases that pushed Japan into taking 16 percent of the world market in steel by 1983 (p. 2). Besides being objectively the biggest producer in a quantitative sense, Japanese steel is of the best quality as well. In 1988, the President of Inland Steel acknowledged that Nippon Steel—Inland's venture partner—possesses the technological capability of the entire U.S. steel industry (Kenney and Florida 1997). To compensate for lack of investment, U.S. steel makers turn to Japanese firms for assistance. Japanese transplant industries in the U.S. frequently outperformed long-established U.S. mills (Kenney and Florida 1997). Not surprisingly, smaller U.S. 'minimills' like Nucor have actually done well in this new competitive environment.

3. The U.S. produced 101 million tons of steel in 1980 according to the World Steel Association (WSA 2014). Until 1980, the U.S. was still the largest producer of steel in the capitalist world. Presently, it produces less than 90 million tons (WSA 2014).

Behind the conflict there is a core of mutual respect and friendliness between the two states

(something not shared by the U.S. and China), from the same article:

[1. *Mc*] Our basic concept is that we would like to see a sound U.S. steel industry which could compete with us fairly—at least in your market," said an official of the Ministry of International Trade and Industry.

[2. *Mr*] Harui Kamiya managing director of Nippon Kokan, is even more explicit, "The steel industry is a basic, strategic industry. [3. *Mc*] If the U.S. steel industry should go down, it would pose a serious problem to the entire free world."

[4. *Mc*] Moreover, Japanese steel executives seem to feel a genuine appreciation for the help Americans and others gave them in the bleak postwar days. [5. *Mc*] "We may have innovative technology now," said Ryoji Kurotsu, director of Kawasaki Steel's engineering division. "But there are many cases in which Japanese steel companies adopted technology initially brought in from the United States and Europe" (Tharp, 10/28/80).

1. Japan has invested in the U.S. steel industry to support it. Almost all new investment in U.S. steel production comes from Japan, who by the early 1990s, had over 60 steel mills operating in the U.S. with an investment valued at over \$7 billion (Kenney and Florida 1997). These steel transplant industries were also created to support transplanted Japanese car manufacturers as well.
2. Similar to the claim made earlier for autos, steel is declared a fundamental part of industrial society and must be protected at all cost. Increasingly, U.S. steel has become dependent on Japanese and European investment to stay alive.
3. Japan is highly dependent on the U.S. economy and thus must contribute to maintaining it, even essentially bailing out their competitors. This kind of behavior does not make sense from the perspective of microeconomics, but is conducive to the long-term planning associated with industrial policy. The "problems" this would pose for the free world is not simply economic, but refers to security that the U.S. underwrites and which Japan is a prime beneficiary (LaFeber 1998; Barnett 2004).
4. This suggests the deep ties between the U.S. and Japan serves as a mediating force that diffuses conflict, as well as making negotiated outcomes like voluntary restraints more likely (LaFeber 1998).
5. This expands on the previous statement and shows that the feeling of reciprocity is not missed by the Japanese. Statements like these help to offset the fear and anger indicated in the previous article. The Japanese are not trying to "shoot down" the U.S. but are trying to compete in the global economy,

while still acknowledging the close ties between the two states. This offsets the blame for deindustrialization and suggests perhaps why arguments to link deindustrialization to Japanese trade practices were unsuccessful. It also reveals why in the rare instance the U.S. did lay sanctions there was no retaliation from the Japanese and why the Japanese were compliant to many U.S. demands.

In the case of steel, the construction of an existential threat is somewhat limited by the deep historical ties between the U.S. and Japan, and their continuing strategic alliance (set in the context of the last years of the Cold War). Despite the virulent racism exhibited along with more sublimated responses over the idea of deindustrialization, the acceptance of Japan as a threat was mitigated by these factors. Obviously, these constraints are not present in the current dynamic between the U.S. and China. Historical ties do not run as deep and they are not allies. The framing of Japan as an existential threat was not limited to steel (or autos) but permeated almost every aspect of trade conflicts between the U.S. and Japan, and concerned not only industries competing against cheap imports, but market access for U.S. high-tech exporters as well, such as semiconductors, which are a vital component of every electronic device including computers.

#### **IV. Semiconductor Agreement: “Japan Inc.”**

Zeng has already written extensively on the U.S.-Japanese semiconductor deal of 1986 (Zeng 2004). The lead up to this agreement was characterized by claims by trade groups representing the industry, most notably, the Semiconductor Industry Association (SIA) formed in 1977 to respond to increasing pressures from international competitors. The SIA claimed that Japan unfairly excludes American products from its market and dumps goods in the U.S market. The dumping conflict centered over the production of dynamic random-access memories or DRAM. Between 1978-86, domestic producer’s DRAM market share declined from 70 to 20 percent, at the same time, Japanese market share in the U.S. market increased from under 30 percent to 75 percent (Irwin 1996, p. 7). Throughout



the 1980s, the SIA had been advocating for tough sanctions on Japan, with some opposition from computer producers and other “downstream” users who benefitted from lower prices from Japanese firms. However, Micron Technology, a firm that was not a part of the SIA initiated an anti-dumping complaint against Japanese 64K DRAM in June 1985, later followed by SIA members Intel, Advanced Micro Devices and National Semiconductor. The Commerce Department initiated its own antidumping case, a practice that was highly unusual, against Japanese 256K and future DRAM generations at the end of the year (Irwin p.9).

The other major complaint concerned market access in Japan for U.S manufacturers. The SIA framed the issue around the idea of reciprocity: since the U.S. is an open market, Japan should be open. Yet, U.S. producers only had 11% of the Japanese market (Irwin p. 9). Principles of reciprocity are institutionalized in GATT, with some exceptions for underdeveloped states. Japan, by the 1980s, was at a level of development on par with the U.S. and had eliminated most of its tariff barriers, however heavy vertical integration and historical ties between Japanese firms effectively shut out most foreign exporters, but these were not actionable offenses under trade law either. In June 1985, the SIA filed a Section 301 petition with the U.S. Trade Representative alleging evidence of market barriers in Japan. As Douglas Irwin explains, however, evidence for market barriers was weak and based on circumstantial evidence: “They had no smoking gun: the strongest statement the SIA could muster was that ‘these trade [market share] figures, coupled with Japan’s protectionist heritage in microelectronics, *strongly suggests* that market barriers still exist in Japan”” (Irwin p. 9). The Reagan administration proceeded with the investigation despite the lack of solid evidence.

The dispute over dumping and market access culminated in the “Arrangement between the Government of Japan and the Government of the United States concerning Trade in Semiconductor” [sic] in 1986. To settle the claims of dumping, the Ministry of International Trade and Industry (MITI) agreed to “price floors” set by the Department of Commerce (Irwin p. 10 note 16). In terms of market

access, rather than specifying mechanisms for market access, the trade deal was controversial for a secret clause demanding 20 percent of the Japanese market for U.S. manufacturers. U.S. manufacturers did, however, briefly, achieve a 20 percent market share in 1992 (Irwin p.5). With no specific plan for how to increase market access, and with limited control of Japanese firms, MITI had little ability to force open the Japanese market more to U.S. exporters.

The semiconductor conflict over market access, in this case, prompted, not “voluntary” quotas, but punitive tariffs on Japanese products, after U.S. producers claimed that Japan did not observe the agreement. The violation originated in another controversial aspect of the agreement concerning price floors on third-party markets (Baldwin 1994 p. 142). The Reagan administration placed a 100 percent surcharge on Japanese electronics in early 1987, but later withdrew most of the tariffs by the end of the year. By this point, most U.S. producers had already moved out of the DRAM market, and like Intel began to focus on other aspects of the production process like microprocessors. Like the cases of autos and steel, the administration’s response to the semiconductor conflict utilized some aspects of industrial policy without defining comprehensive objectives for structural reform. Unlike these older industries, American manufacturers were able to transition to newer industries and production niches within the rapidly developing U.S. computer industry of the 1980s and 1990s, although undeniably losing control of the lower-value markets they had originally fought to protect.

Around the same time of the semiconductor conflict, several highly publicized books on U.S.-Japan relations began appearing, such as *The Rise and Fall of Great Powers* (1987) by Paul Kennedy, or *Trading Places: How We Allowed Japan to Take the Lead* (1988) (or the 1993 sequel *Trading Places: How We Are Giving our Future to Japan and How to Reclaim It*) by Clyde Prestowitz, whom all place the theme of U.S. decline at the center of their analysis. The latter title by Prestowitz, although lacking in the typical conservative pathos of destiny and decline in Kennedy’s work, reveals a more confrontational approach with Japan. Prestowitz emphasizes the differences of Japan, in contrast to

older ideological views that refused to see Japan as anything other than a “democratic nephew” of the U.S., enlisted in the crusade against the Soviet Union (Watanabe 1989). This old-fashioned ideological view is obviously untenable, but to go to the opposite extreme and exaggerate the “otherness” of Japan, or the “threat” of Japan is also ideological.

At its most extreme, “Japan Inc.” was now waging war with economic means using “dumping” and “market barriers” to destroy American industry. This exaggerated notion can be seen, for example, in the following *New York Times* editorial “As Japan Tries to Reduce the U.S. to Colonial Dependency,” by Jack Avins, from the Institute of Electrical and Electronics Engineers (IEEE), a professional association among the most vocal critics of Japan. Avins argues that Japan aims, ultimately, to reduce the U.S. and Europe to colonial dependency, thus, establishing Japan as the dominant power in the world, and as a grand act of historical revenge, subjecting the West to colonial status. Such highly exaggerated claims reveal the irrationality of the construction of an existential threat to justify policies to deal with trade conflicts. This construction is easily exposed by the inaccurate and untenable arguments on which it is based. Yet, despite this, such irrational constructions are needed in order to motivate the government to take any action when all policy-decisions are framed by free trade norms:

[1. *Mc*] We should come around to understand that this friction can only be exacerbated by Japan's continuing drive to reduce the U.S. (and other industrialized nations) to the status of colonial dependency. [2. *Mc*] When profits are systematically taken from a host country and returned to the investing country, the host country loses precious investment capital and the experience essential to its longterm viability (Avins, 5/31/84).

1. This statement is similar to what Maurice Stans, Commerce Secretary in the Nixon administration, anonymously quoted here said: "The Japanese are still fighting the war, only now instead of a shooting war it is an economic war. Their immediate intention is to dominate the Pacific and then perhaps the world" (Lafeber 1998 p. 353). This framing sharply contrasts with the image of Japanese steel executives working to help the U.S. steel industry as a result of historical ties, interdependence and

security considerations.

2. If the author has any serious intentions at all, it rests on this explanation. However, this reasoning is faulty. For one, it overlooks the fact that capital accumulated by the Japanese surplus was mostly re-invested back in the U.S. In other words, Avins misinterprets the relationship between the current account (e.g. trade) and capital account (investment) expressed by the “balance of payments.” A nation that runs a surplus in one will run a deficit in the other. Griswold explains the relationship with the formula “Savings – Investment = Exports – Imports” (Griswold 1998). He goes on to explain:

Thus, a nation that saves more than it invests, such as Japan, will export its excess savings in the form of net investment. In other words, it must run a capital account deficit. The money sent abroad as investment will return to the country to purchase exports in excess of what the country imports, creating a corresponding trade surplus. A nation that invests more than it saves—the United States, for example—must import capital from abroad. In other words, it must run a capital account surplus. The imported capital allows the nations’ citizens to consume more good and services than they produce, importing the differences through a trade deficit (Griswold 1998, Web).

Griswold seems untroubled by the low-savings rate of Americans (or the corresponding stagnant wages) since increases in foreign investment compensates for this. The low-savings rate also fuels consumer debt that exploded in the 1990s, but since 2008 has become increasingly more restricted (Draut and Silva 2003; Indiviglio 2010; *The Economist* 2013). The irrational framing of Japan by Avins does not bring up the possibility of structural reform to increase the savings of Americans and thus reduce the trade deficit that way, something that the libertarian Griswold is not concerned with.

Less extreme forms of the same argument were framed around the idea of reciprocity. However, this framing is as insubstantial as the argument that Japan is trying to reduce the U.S. to colonial dependency, because it rests on an illusory foundation, namely, that the U.S. market does not have its own market barriers. In *The New York Times* article, "Japan-U.S. Trade Gap 13.4 billion," U.S. Trade Representative Bill Brock frames the conflict on the idea of reciprocity: [1.Mc] “Our request is that their markets be as open as ours,' Bill Brock, the United States trade representative, told a new

conference, but he added that it could be three or four years before American companies establish a market demand of sufficient strength to support a major expansion of exports to Japan" (Farnsworth, 1/19/82).

1. The notion that closed markets lead to higher trade deficits for the U.S. is disputed by Griswold who points to the fact that the U.S. enjoys surpluses with relatively protected markets like Brazil and deficits with Canada and Mexico, which as a result of NAFTA, are almost totally open to U.S. exports (Griswold 1998). Irwin argues that Japan's semiconductor market was basically as open as the U.S. The U.S. still dominated the U.S. market, just as Japan dominated the Japanese market (Irwin p. 10). The actions by the U.S. during this conflict actually undermine the claim for open U.S. markets. The creation of the SIA and later SEMATECH, a government sponsored research firm, for example, was a step towards the "cartelization" of trade, and the negotiated "anti-dumping" settlements agreed to by the Reagan administration and MITI essentially made the U.S. market less open. As Irwin says, "Few industries ever receive the sustained, high level attention needed to result in the negotiation of a government agreement on trade in just one sector" (Irwin p. 6).

In the same article, Brock's constative claim is echoed by then Senator Bob Dole (who Brock later campaigned for in 1988), by making a normative appeal to core American ideals of fairness. Sen. Dole's statement reinforces the threat of Japan to core American values [1. *Mr*] "American industry must have the same fair and equal treatment overseas,' Senator Dole said, 'There must be a greater access for competitive American goods in the Japanese marketplace'" (Farnsworth, 1/19/82).

1. The existential threat of Japan Inc. subverts core American values like fairness and equality. Again, this framing is based on the empirical notion that Japan's markets are more restricted than the U.S. market, a notion that cannot be substantiated. In other words, Japan is already about as fair and equal on trade as the U.S.

The construction of an existential threat must also invoke emotional responses. Strong emotional frames compensate for the empirical weakness of the claims made about Japan Inc. From the *Times* article, "U.S. Studies Retaliation Against Japan On Trade," leading politicians try to convey empathy with average Americans who are victimized by this threat, [1. *Me*] "I sense a deep frustration that everyone is beginning to feel," said Senator John F. Kerry, Democrat of Massachusetts. [2. *Me*] And Senator Daniel J. Evans, a Republican from Washington added, 'I'm about at the end of 30 years of belief in an open-trading system'" (Farnsworth, 3/7/85).

1. Senator Kerry is expressing his sense of empathy for the frustration that "everyone feels." This statement conveys, first, that Kerry is sincere in that he feels the pain of working class people, and it also conveys this idea is widely felt or "everyone is beginning to feel," suggesting that frustration over these policies is not limited to isolated interests but something felt by the nation.
2. The "open" trading system is really the system of embedded liberalism and managed trade that functioned, more or less smoothly, until the early 1970s. Since then, the system has really become more open, especially, during the 1990s and after, until the crash in 2008, resulting in fairly anemic rates of growth for international trade since then (Hoekman 2015).

Arguments for reciprocity and market access, despite its empirical weakness, remained the enduring theme in framing the threat of Japan over the semiconductor issue. This framing was endorsed by a growing alliance among segments of different American industries uniting in order to oppose the threat of Japan Inc. The more industries reproduced this framing, the more credible it appeared. The weakness of this argument, again, was based on the inability to specify a mechanism by which the Japanese excluded American exports. American producers tried to emphasize the notion of "non-tariff" barriers to trade (UNCTAD 2013; Staiger 2012). Many of these supposed barriers were products of the extensive bureaucratic apparatus that makes up Japanese industrial policy. Certainly Japan had a very

dense regulatory regime. Yet, no clear evidence showed any of these mechanisms could actually explain how U.S. producers were kept out, from the same article:

[1. *Mc*] American trade negotiators have accused the Japanese of stonewalling on demands by Washington to open up the telecommunications, electronics, wood products, medical and pharmaceutical sectors to foreign competition. [2. *Mc*] Although Japanese tariffs are low, American negotiators say Tokyo uses regulatory, testing, product certification and other barriers to exclude foreign products. (Farnsworth, 3/7/85)

1. Zeng argues one of the reasons why tariffs on semiconductors were successful is there was an alignment among export interests in the U.S., including steel and autos, all of whom were frustrated by attempts to gain market share in the Japanese market (Zeng 2004).

2. Irwin argues the major impediment to American exporters was the high level of vertical integration among Japanese firms, as well as past government policies and the close historical ties that developed since the reconstruction of Japan (Irwin 1996 p. 10). Furthermore, many U.S. firms like IBM and AT&T are as vertically integrated as Japanese firms. U.S. producers also employed their own “non-tariff” barriers against the Japanese. Irwin states, for example, that U.S. semiconductor firms terminated contracts with distributors who carried Japanese products (Irwin p. 10). Baldwin argues that since the U.S. dominated markets everywhere except Japan, and Japan only dominated its own market, it is more likely that the U.S. and the rest of the world (mainly Europe and East Asia) maintained market access barriers *against* Japan (Baldwin 1994 p. 138).

The construction of an existential threat, in this case Japan Inc., was a potent force throughout the trade conflicts of the 1980s and 1990s. This framing of Japan was used to explain the increase in foreign imports in traditional American industries and the difficulties U.S. exporters had in capturing foreign markets. The frustration and anguish caused by economic downturns in manufacturing throughout the decade (disproportionately affecting the poor and working classes), further enflamed and intensified by political opportunists in government and various interest groups, made it tempting to divert this anger into an external threat. Despite this, the threat of Japan was moderated by the close ties

between the U.S. and Japan, and the lack of substantial evidence that Japan was truly engaging in dumping or closing its markets to the U.S.

The construction of a threat like Japan Inc. diverts energy away from efforts for structural economic reform and focuses efforts on punitive policies instead. After several failed attempts at restricting Japanese trade, and around the same time of the semiconductor conflict, the Reagan administration turned towards the idea of devaluation of the dollar as a way of stimulating more U.S. exports. Once again, efforts for more substantial structural economic reform were suppressed in favor of ineffective policies due to the narrow limitations of free trade ideology.

## **V. Plaza Accord: Unintended Consequences**

As argued earlier, attempts at promoting industrial policy in the U.S. by linking the need for policy to deindustrialization failed. An ideologically divided left was no match for a right that was united around the ideology of the "free market." Those who were opposed to industrial policy instead looked to a volatile floating currency system, strong international demand for dollars, as well as inflation reducing interest rates, for creating an "overvalued" dollar driving up the price of U.S. exports. Among the most outspoken opponents of industrial policy was Robert Z. Lawrence, a leading "New Democrat" who was later on President Clinton's Council of Economic Advisers, and of the National Bureau of Economic Research, the Petersen Institute and Brookings Institution, who like most opponents of industrial policy shifts the focus to currency appreciation:

Flexible exchange rates have been important to U.S. trade performance. From 1973 to 1980, partly because of the real devaluation of the dollar, foreign trade provided a net addition to output and jobs in U.S. manufacturing. From 1980 to 1982, the erosion in relative price competitiveness has been the sources of the decline in employment due to manufactured goods trade (Lawrence, 1983).

By the mid 1980s, the U.S. current account deficit was more than 3% of its GDP (Obstfeld and Rogoff



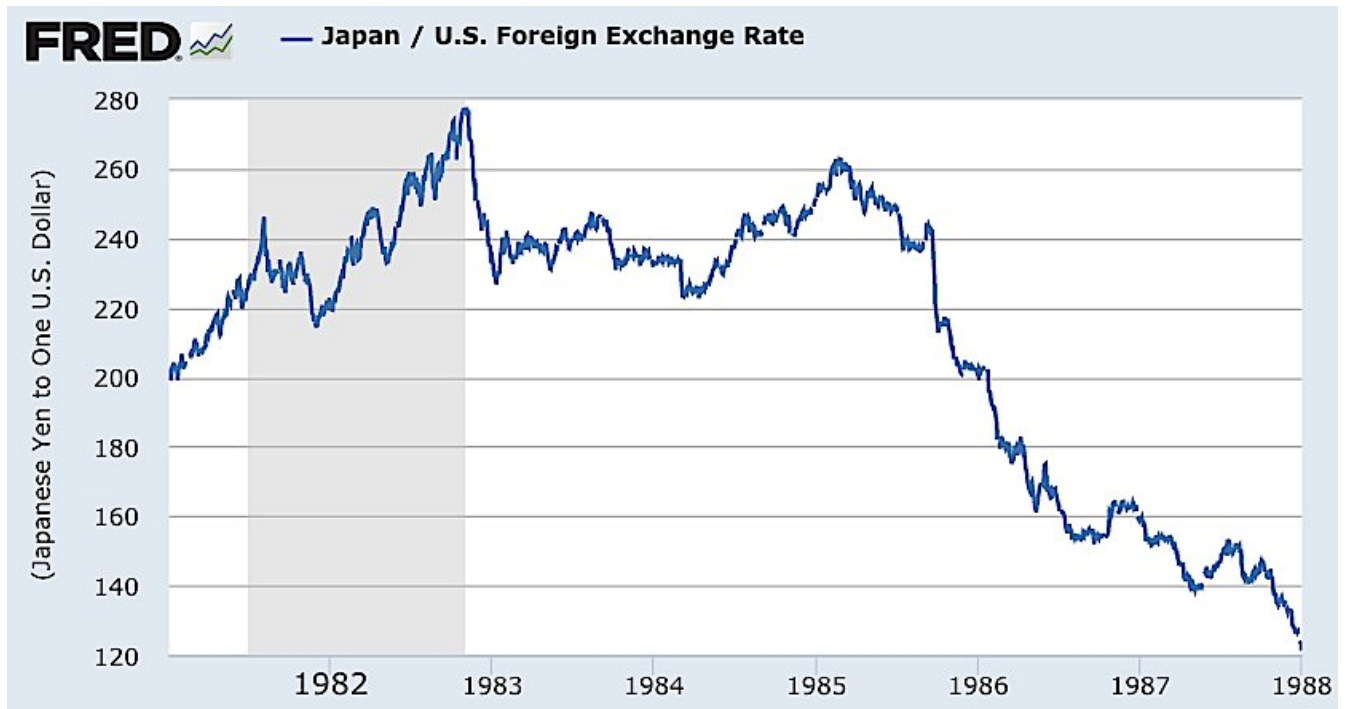
2007). Conventional economic theory states a higher current account deficit will lower the value of the currency. Yet, the value of the dollar increased despite the larger deficit, due to high interest rates. A reduction of the value of the dollar would then have to be negotiated through policy and could not be left up to market forces.

The neoliberal solution to weaken the value of the dollar prevailed. The Federal Reserve lowered interest rates signaling a shift towards devaluation. However, the burden of adjustment would fall on the trade partners of the U.S., especially Japan. In September 1985, among great secrecy, the G5 countries met at the Plaza Hotel and worked out an arrangement to coordinate the exchange rates of these states in order to bring down the value of the dollar, followed by the Louvre Accord in 1988 to stabilize the declining dollar (Ravenhill 2014). Democrats and progressives endorsed the Plaza Accord, as a move towards correcting “speculative forces in capital markets,” despite its long-term consequences (Kuttner 2001, 2009; Faux 2007). Progressives also pointed to the Accord as a concession from the right that markets did not always set the most efficient price, contrary to neoclassical theory. But, this concession failed to generate anything like a “Bretton Woods II,” and the hegemony of free trade ideology only became more consolidated (Kuttner 2009). By intervening in currency markets to devalue the dollar, the Plaza Accord essentially constituted another unacknowledged form of industrial policy by the Reagan administration, but, again, lacking the long-term strategic objectives characteristic of industrial policy.

The immediate result of the Plaza Accord led to the devaluation of the dollar by more than half relative to the yen (from a high of 260 in early 1985 to a low of 120 in 1988 after the deal was struck). The currency tactic was in many ways the path of least resistance as it was advocated by conservatives and liberals, and by foreign governments including Japan. The conventional logic was that a higher value for the yen relative to the dollar would reduce the flow of Japanese imports into the U.S. by making Japanese imports more expensive. Conversely, a weaker dollar will increase the flow of U.S.

exports by making exports cheaper. At the same time, higher prices on imports will induce Japanese corporations to relocate production facilities to the U.S., and thus establish relations with other U.S. manufacturers and employ American workers. In some regards it was the most successful policy. The trade deficit declined between 1988-92. At the same time, the unemployment rate climbed steadily from 5.5 in 1988 to 7.5 in 1992 (Griswold 1998). The trade and current account deficit began to grow again in 1992, and unemployment began to fall again as well, both trends continuing until the 2001 recession. Ultimately, currency devaluation failed to substantially reduce the trade and current account deficit. Since the major barrier for U.S. exports was from vertical integration between Japanese firms, not price competitiveness, currency devaluation, also, did little to boost U.S. exports to Japan (Irwin 1996; Masaki 2005).

Figure [3.6]



Source: *Business Insider* and Federal Reserve Economic Data (FRED)

The Plaza Accord ultimately failed to reduce the deficit, and led to many “unintended consequences.” This is not surprising considering the unpredictability and uncertainty of manipulating exchange rates. For one, it further intensified trade conflicts by channeling Japanese capital into the U.S. to purchase assets. The purchase of U.S. assets, ironically, helped feed the perception of Japan as an existential threat (Wile 2014). Second, Japanese transplant industries in the U.S., for the most part, would establish relations with other transplant industries, or continue to import products from Japan and did little to stimulate the recovery of American manufacturing. Third, the introduction of transplant industries helped undermine the power of labor unions by depressing wages and creating a supply of non-unionized workers in industries where labor was traditionally strong (UAW 2010). Arguably, this consequence may have been intentional. Finally, since a stronger yen helped to inflate the value of

Japanese assets, the Plaza Accord also contributed to Japan's bubble economy and led to what is known as the "lost decade" (or lost two decades) in Japan. By 1990, the Japanese stock market had crashed and the Bank of Japan had raised interest rates, thus ending the speculative boom of Japanese investments. Since 1990, Japan's GDP growth averages about 1 percent (IMF 2011).

In the same *Times* article looking at the semiconductor conflict "U.S. Studies Retaliation Against Japan On Trade," the overvalued dollar is raised by Japanese officials who use it to explain the inability of U.S. businesses to reduce the growing trade deficit: [1. *Mc*] "Japanese officials blame the highly valued dollar, which makes American exports more expensive and Japanese exports cheaper" (Farnsworth, 3/7/85).

1. Framing the conflict around systemic disinvestment was antagonistic to the interests of U.S. finance, framing the conflict around dumping and market barriers was antagonistic to Japan. However, to attribute it to the dollar was acceptable to both Wall Street and Tokyo.

Contra this perspective, from the same article, the U.S. Trade Representative Bill Brock, actually undermines the later stance taken by the Reagan administration: [1. *Mc*] "While acknowledging the foreign exchange factor, Mr. Brock noted that Japanese imports of manufactured goods from all industrialized countries had barely risen - even from Canada and the European Common Market, where currencies have depreciated against the yen" (Farnsworth, 3/7/85).

1. Brock provides a credible explanation that forecasts the later failure of currency reform with Japan to reduce the trade deficit. The shaky foundations on which the devaluation argument rest are quite clearly revealed by the empirical fact that countries whose currencies had already depreciated against Japan's saw almost no increase in their exports to Japan. Ultimately, this was ignored by the Reagan administration.

If a more robust debate of policy options were permitted in the limited parameters of discourse dominated by free trade norms, then better alternatives could have been presented besides the policy of

devaluation or to incorporate devaluation into a more comprehensive approach to reviving the economy. The divided Democratic Party was in no position to offer any credible alternative, only punitive tariffs. Thus, it is not surprising the devaluation argument prevailed despite such a weak foundation, namely, the lack of empirical evidence that devaluation will significantly boost exports and the many damaging unintended consequences that resulted from this policy.

One of consequence of devaluation was the highly publicized acquisition of U.S. assets by Japanese firms. For example, this editorial from *The Journal of Commerce* “Low Dollar Sells Out America,” relates devaluation to the increase in Japanese investment: [1. *Mc*] “When devaluation was implemented, investments in the United States became dramatically cheaper for all foreign investors” (Conover, 3/29/90).

1. Before the Plaza Accord was implemented the dollar was trading at 260 compared to the yen. After the accord was implemented, the dollar fell more than half to a low of 120 yen. Major Japanese investments had occurred before the Plaza Accord. Most notably, the purchase of Ford Motor Co.’s steel subsidiary, the Rouge Steel Corporation, by Nippon Kokan Co. in 1982, but the pace dramatically accelerated after 1985 (Wile 2014). Major Japanese auto companies also established plants in the U.S. before the Accord, like Honda in 1982 and Nissan in 1983 (USA Today 2012).

Japanese investments helped reinforce the framing of Japan as a foreign threat determined to colonize the U.S. Another article from *The Journal of Commerce*, “Japanese Property Investment Soars Over \$20 Billion,” warns of high levels of Japanese investment feeding into virulent resentment against Japan: [1. *Mc*] “Foreign Ministry authorities recently warned that this situation could further arouse anti-Japanese sentiments in the United States and in other countries as well” (Cullison, 2/9/90).

1. Rob Wile, of *Business Insider*, provides a partial list of some of the highly publicized assets acquired by the Japanese after the Plaza Accord: including major industrial firms like Firestone, film studios like Columbia Pictures, as well as commercial real estate like the Mobil Building in New

Orleans, Rockefeller Center in New York, Arco Plaza and the Biltmore Hotel in Los Angeles among others, many provoking anger and fear in Americans (Holroyd 2002; Easterbrook 2010; Wile 2014).

Supporters of the Plaza Accord believed that higher import prices would cause Japanese manufacturers to relocate to the U.S., becoming what was known as “transplant industries.” Transplants would help revive American manufacturing by establishing cooperative relationships with U.S. firms. The most important Japanese transplants were in the auto industry. The left bought into the idea of devaluation mainly because of the possibility of reviving the auto industry. Plaza Accord supporters believed that Japanese auto companies would help revive the long struggling U.S. auto industry by creating relationships and stimulating demand with American auto parts suppliers. However, the result was to increase the development of transplant industries, from the article “Low Dollar Sells out America”:

[1. *Mc*] Consider the fate of the American automobile industry. [2. *Mc*] American economists reasoned that if imports into the United States became more expensive, Japanese automobile assemblers operating in this country would naturally turn to American suppliers for their components. [3. *Mc*] Instead, those Japanese assemblers made it known to their traditional Japanese suppliers that it would be worthwhile for them to establish operations in the United States. [4. *Mc*] There has been a 500 percent increase in the number of such “transplant” suppliers since the Plaza Accord (Conover, 3/29/90).

1. The failure of quotas and devaluation to revive the auto industry reveals the lack of legitimate and effective policy options to revive this and other industries.
2. Supporters of devaluation underestimated the extent to which different production models characterized U.S. and Japanese producers. As Florida has argued, Japanese producers do not follow the U.S. model of mass production. The Japanese style of lean production, or “just-in-time” production, encourages relations with other transplant firms (Florida and Kenney 1997). *The Economist* describes the major difference is the emphasis on teamwork and performing a variety of functions rather than the narrowly defined specialization characteristic of mass production (Fordism): “Within each team a

worker is expected to be able to do all the tasks required of the team. These tasks are less narrowly specialised [sic] than those demanded of the worker in a mass-production system, and this variety enables the worker to escape from the soul-destroying repetition of the pure assembly line” (Economist 2009).

3. Florida, Jenkins and Smith argue that Japanese transplant industries were more likely than U.S. firms to adopt “innovative practices” like work teams, quality circles, and job rotation. This resulted in transplant industries establishing more cooperative relationships to each other (Florida, Jenkins and Smith 1998).

4. Florida, Jenkins and Smith argue a more conservative estimate. From 1980 to 1990 the number of Japanese manufacturing transplants increased from 240 to 1,380 plants, with the number of American workers employed by the Japanese increasing from 52,339 to 340,000 (Florida, Jenkins and Smith 1998).

The profusion of Japanese transplants also fed into the notion of Japan colonizing the U.S. Transplants were seen as replacing long-established U.S. firms. U.S. firms remaining in the market were relegated to selling low-value products, i.e. like a colonial economy, from the same article:

[1. *Mc*] These "transplants" then began to import many of the high-tech components of their products from their own Japanese assembly lines, while buying low-value-added commodity items from American-owned suppliers. [2. *Mc*] This strategy resulted in a remarkable windfall for the Japanese economy, displacing American suppliers, whose relative investment costs were considerably higher (Conover, 3/29/90).

1. According to the UAW of the “domestic content” in Japanese autos manufactured in the U.S., the highest is Honda at 63%, followed by Toyota 46% and Nissan 31%. Of American manufacturers Chrysler has the most domestic content at 76%, GM and Ford are about equal to Honda, both at 64% (UAW 2010).

2. Lower investment costs for the Japanese can again be attributed to their lean production model. But, Japanese companies are also non-union, pay employees less, and are resistant at efforts to unionize (UAW 2010). In the early 1980s, the average American autoworker made \$20/hour, while the Japanese worker made \$12/hour (Rae 1984).

The failure of devaluation to solve the persistent structural weaknesses of the U.S. economy follows the similar pattern of distorted communication seen in the other trade conflicts. 1) Policy-options were limited due to the framing of free trade norms that effectively delegitimize structural reform policies. 2) The left acquiesced to the neoliberal approach to the problem. At the same time, the Reagan administration initiated the Plaza Accord, partly, as a way to diffuse protectionist sentiment in Congress. 3) Although advocates of the accord stressed its cooperative nature, the burden of adjustment fell on Japan who bore the most costs. Also, the result of devaluation tended to enhance the perception of Japan as an existential threat. This threat would have only grown more in its intensity in the following decade if not for the collapse of Japan's economy and the beginning of its lost two decades, as well as the rise of China.

## **VI. "Super 301": Sound and Fury**

The final trade conflict with Japan is over the 1988 Omnibus Foreign Trade and Competiveness Act. More specifically, the conflict over "Super 301," an amendment to Section 301 of the 1974 Trade Act. Section 301 is designed to increase U.S. exports. It states, if the United States Trade Representative (USTR) determines that the rights of the U.S. are being violated under any trade agreement, or if any act, policy, or practice of another country violates trade agreements, or "is unjustifiable and burdens or restricts U.S. commerce," then, "The Trade Representative shall take action...subject to the specific direction, if any, of the President regarding such action...to enforce such



rights or to obtain the elimination of such act, policy or practice. Actions may be taken that are within the power of the President with respect to trade in any goods or services, or with respect to any other area of pertinent relations with the foreign country” (19 U.S.C. § 2411). To determine whether rights are being violated or a trade practice is unjustifiable, the USTR can self-initiate an investigation or can do so as a result of a petition from a firm or trade group. All “Section 301 cases” prior to the passage of the law were initiated by petition. The only exception was when President Regan initiated an investigation on semiconductors in 1985 (King 1991).

Super 301 transfers punitive power from the President to the United States Trade Representative (USTR) and mandates the USTR not only to investigate claims on specific goods, but to: a) review U.S. trade expansion priorities; b) identify “priority foreign country practices” that most significantly impede U.S. exports, including the estimated loss in value to U.S. exports because of these barriers; and c) report to Congress on the priority foreign country practices, specifically the House Ways and Means Committee and Senate Finance Committee (19 U.S.C. § 2420). The USTR was then mandated to initiate Section 301 investigations of the practices identified. Once these investigations had begun, the USTR could open negotiations with the offending country in order to remove export barriers and come to a settlement. If negotiations failed, then the USTR was authorized to raise tariffs on the offending countries. Japan was cited under Super 301 for supercomputers, satellites, and wood products in 1989, and led to negotiated settlements on all three industries by the following year (Zeng 2004; King 1991). However, after settling these disputes, Japan was removed from the priority list in 1990. This provoked a great backlash from Congressional Democrats who tried, unsuccessfully, to pass further legislation to remove the discretionary aspects of this power and to coerce the administration into enacting punitive tariffs on Japan (King 1991). The Treasury Department was also to report to Congress on International Economic and Exchange Rate Policies (IEERP), a report on the general economic conditions of the U.S. and exchange rate policies of its trade partners. Japan was briefly

labeled a “currency manipulator” in 1988 but was removed after the yen appreciated against the dollar (Keating 2012).

The passage of this law challenged the legitimacy of the General Agreement on Tariffs and Trade (GATT). Trade disputes are covered under the GATT framework. Under articles XXII and XXIII of the GATT a process for consultation and negotiation is provided, as well as procedures for sanctioning members (King 1991). Punitive tariffs are prohibited under the GATT. If states cannot resolve a conflict through the GATT process, and if one state is found to be at fault and refuses to change its policy or provide compensation, the concessions of Most-Favored Nation (MFN) status may be withdrawn. There was only one case in GATT history where concessions were withdrawn (King 1991). All other conflicts were resolved through negotiation. Most importantly, the GATT provided a multilateral forum for trade negotiations, drastically lowering tariffs in the post-war era. However, Congressional Democrats believed that the GATT dispute resolution process was too slow and did not anticipate the profusion of non-tariff barriers. The original GATT did not contain provisions for non-tariff barriers, but subsequent rounds of negotiation like the Tokyo Round in 1979 did increase the scope of trade practices by GATT, yet, Democrats believed these reforms were insufficient (King 1991). The most controversial aspect of Section 301, and of the Super 301 amendment is the strong gesture towards a unilateral or bilateral approach to resolving trade conflicts. Critics of Super 301 argued that it and Section 301, the unilateral and the punitive characteristics of the law were illegal under GATT (King 1991; Birenbaum 1988).

Super 301 provisions are designed to open markets to U.S. exports by removing market barriers to these exports. The major problem with this is that actual evidence of market barriers in Japan, like in the semiconductor conflict, was uncertain at best, or as Irwin argues, export promoting interests lacked the “smoking gun” that proved deliberate barriers on the part of the Japanese (Irwin 1996). The best evidence that exporters could use was circumstantial evidence showing the low market share of U.S.

industries in Japanese markets compared to other markets (Zeng 2004). Again, as Irwin argued, since U.S. market shares in its own markets were about as high as Japanese market shares in their own markets, it seemed likely that the Japanese market were about as open as the U.S. market (Irwin 1996). This is not to deny that some barriers existed in Japan, but, for the most part, they were similar to market barriers in the U.S.

Like the other trade conflicts, the passage of this law and its use in this conflict reveals a similar pattern. 1) Policy options for trade conflicts under the law were limited to punitive policies. The law did provide for Trade Adjustment Assistance (TAA), but these more progressive ideas tended to be subordinated to the punitive Super 301. 2) The left was divided, on the one hand, over the commitment to multilateral institutions like the GATT, on the other, the unilateral responses mandated by Super 301. Yet, most Congressional Democrats and many progressives applauded the “tough” approach of Super 301. In actuality, the overall law was more moderate and reflected this division. The Bush administration was able to exploit this division and defuse the power of the law and, despite the great fan-fare surrounding its passage, hardly exercised the powers given. This power was renewed during the Clinton administration, but was also used sparingly and later expired. 3) The existential threat of “Japan Inc.” was, again, used to legitimize Super 301, and to legitimize transgressing the authority of the GATT. As in previous conflicts, there was a lack of substantial evidence of deliberate harm on the part of Japan. Lack of substantial evidence undermined claims for a punitive response.

After 1985 and the semiconductor conflict, and with mounting Congressional pressure, the Reagan administration began to take a tougher stance on trade conflicts (Birenbaum 1988). Despite the repeated calls for protectionism by Democrats throughout the decade, no major legislation was passed until the Democrats regained the Senate after the 1986 Midterm elections. Throughout the decade, the Democratic majority in the House, notably Dick Gephardt (D-MO) and Dan Rostenkowski (D-IL), pursued a protectionist agenda and advocated punitive policies that aimed to raise tariffs to foreign

imports and subsidize the manufacturing sector (in contrast to the smaller faction that became known as the "Atari Democrats" who favored newer, high-tech industries). However, after the 1986 mid-term elections, Democrats were able to recapture the Senate, and led by the efforts of Senators Ted Kennedy (D-MA), Lloyd Bensten (D-TX), Max Baucus (D-MT), and John Kerry (D-MA) were able to push through an identical version of the trade bill long sought by House Democrats. In 1987, the House and Senate both passed trade bills, however, the process of reconciling these two separate bills into identical legislation was so complex that it was not until the following year the legislation was passed (Birenbaum 1988). A united Congress was able to exert more pressure on the outgoing (and scandal-plagued) Reagan administration and were able to force the President to sign into law what was considered by some a highly protectionist law (King 1991).

In some regards, the protectionist nature of the law is exaggerated. Stressing the protectionist aspects of the law conceals the extent to which Congress was divided over the bill, the administration was still resistant to intervening in trade disputes, and other factors mediating the "toughness" of the law. For one, protectionist pressures since 1985 had subsided to an extent after the Plaza Accord had temporarily reduced the trade deficit (now making the prices of domestic goods more expensive for Americans). The stock market crash in 1987 also caused hesitation among members of Congress to send "damaging signals" to international financial markets (Birenbaum p. 661). The most concerning aspect of the law was the unilateral stance pushed by Congress to deal with trade conflicts. However, as Birenbaum points out, by renewing executive fast-track authority, taking power away from Congress, the law also affirms multilateralism to an extent (Birenbaum pp. 658-59). Furthermore, the unilateral and discretionary aspects of the law are mediated by the adherence to principles of the rule of law. By setting short time tables for action and mandatory reporting, Congress is certainly exerting force on the administration and prodding it to act, although not in a way inconsistent with legal proceedings.

Furthermore, in no case is retaliation mandatory, and the USTR always has the final option of granting

a waiver under exceptional circumstances (Birenbaum pp. 657-58). Perhaps most importantly, the law makes provisions for trade adjustment, rather than simply trade protection. The law expands Trade Adjustment Assistance for dislocated workers by over \$1 billion, as Birenbaum says, “Given the Administration’s prior opposition to adjustment assistance, its endorsement of the adjustment policy reflected in the Omnibus Act represents a sea change” (Birenbaum p. 659). Birenbaum also argues that the law re-writes one of the most overtly protectionist aspects of U.S. trade law, Section 201, dealing with damaging imports to the U.S. (used in previous trade conflicts over autos, steel and semiconductors), and reorients it more towards providing adjustment for import competition (Birenbaum pp. 659-60).

The more progressive aspects of the law favoring trade adjustment tended to recede in the background as the punitive aspects of the law in Super 301 became the central focus in trade conflicts during the late 1980s. The framing of this conflict by leading Democrats shows a protectionist Congress trying to pressure a more ambivalent administration to exercise power under the new law. In this article from *The New York Times*, "U.S. Feeling Pressure to Cite Japan on Trade," after the act has been passed, it is clear there is pressure from Congressional Democrats against a reluctant Republican administration: [1. *Mc*] “The Bush Administration must list Japan as a country engaging in unfair trade practices or it will render new trade legislation 'virtually useless' and damage relations with Congress, Max Baucus, chairman of the Senate Finance Committee's trade subcommittee, said last week” (Farnsworth, 4/24/89).

1. Baucus was among the most vocal supporters of using Super 301 against Japan. The forestry industry is a major industry in Montana, Sen. Baucus’ home state, and Baucus, using his position as chairman of a congressional committee to influence trade policy, was a major force in urging Super 301 investigations on wood products (Zeng p. 159). The focus here is less on trade adjustment than on defining Japan as a threat. Indeed, Baucus states the law is “virtually useless” if it is not used to punish

Japan. The idea of TAA goes back to the New Deal era, but was first introduced by the Trade Expansion Act of 1962. President Kennedy, who proposed the idea, said: “When considerations of national policy make it desirable to avoid higher tariffs, those injured by that competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the Federal Government” (Special Message to the Congress on Foreign Trade Policy, Jan. 25, 1962). However, this more conciliatory framing of trade conflicts does not match well with the punitive framing that defines trade partners as threats subverting the U.S., nor the short sightedness of interest group politics. Meanwhile, not enough attention has been paid to strengthening TAA. Most progressives today consider TAA to be underfunded and too limited in responding to the needs of a modern, more service-oriented workforce (Reich 2001; Aaron 2011).

Despite the great fan-fare following the passage of the law, there were strong indications that the law’s substantive effect would be limited, namely, the ambivalence of the Republican administration to use its powers. On the one hand, the Reagan and Bush administrations became more sensitive to demands to address the trade deficit, as well as, to protect industries that had a strong national security aspect (Zeng 2004). However, of course, the commitment to free trade norms moderated the administration’s stance on using punitive powers. The ambivalence of the administration is shown in another *Times* article, that looks at the issue from the perspective of USTR Carla Hills, “Caution Urged in Battle Against Unfair Trading”: [1. *Mc*] “Although Mrs. Hills decided only a few days ago to retaliate against Japan for failure to liberalize its \$9 billion-a-year telecommunications market, the broader question of designating Japan a ‘priority’ country under the so-called Super 301 section of the trade law is still open” (Farnsworth, 5/4/89)

1. Reluctance on the part of Hills, who later did open Super 301 investigations, was not idiosyncratic, but stemmed from institutional and ideological reasons. The previous USTR, Clayton Yeutter, also

opposed the idea of giving more power to the USTR and the mandate to label and investigate priority countries: “To box us in by requiring self-initiation would be a costly mistake, to the detriment of U.S. industry. And to deflate the importance of 301 by demoting the decisionmaker from the President to the trade representative would reduce the likelihood of favorable results from its use” (quoted in King 1991 p. 256 note 58). The succeeding USTR, Mickey Kantor, after President Clinton reinstated Super 301, labeled Japan a “renegade nation,” and threatened retaliation if Japan did not open its markets (WP 1994).

The ambivalence of the Republican administration was rooted in many factors. For example, it will endanger the ongoing Uruguay Round of trade talks for the GATT. This perspective allowed the administration to frame the use of Super 301 as a reckless tool with many dangerous consequences, from the same article: [1. *Mc*] “Earlier this week the chairman of President Bush's Council of Economic Advisers, Michael J. Boskin, warned that a protectionist use of the law could lead to further retaliation, trade contraction and a world recession. [2. *Mc*] His comments, following the action on the telecommunications issue, underscored a dispute within the Administration on trade policy” (Farnsworth, 5/4/89).

1. The highest priority of the administration was the conclusion of the Uruguay Round of multilateral trade negotiations. The administration feared that use of Super 301 would damage negotiations: “Hills acknowledged that the Super 301 process had offended some foreign government to the point where bilateral progress had been impeded since then, saying, ‘[t]he bad news is that after the designation, the quality of talks has not been the same’” (quoted in King p. 26). Begun in 1986, originally scheduled to end in 1990, the Uruguay Round was extended for another four years due to difficulties negotiating over agricultural reform and intellectual property rights, complaints that would continue to affect GATT and later WTO that was established at the end of the Round (WTO 2015). The seemingly

irresolvable difficulties making headway in these areas have stalled the succeeding Doha Round.

2. Within the administration, USTR Hills and the Department of Commerce made the strongest claims for enforcing the law under Super 301, and these claims were still more moderate than Congressional Democrats. Besides the Council of Economic Advisors (CEA), Reagan's budget director Richard Darman, the State Department, the National Security Council (NSC), and the Office of Management and Budget (OMB) all warned of harming the alliance with Japan (Zeng 2000, p. 150). Eventually, however, these officials came to support Super 301, Zeng goes on to say:

They came to realize, albeit with some reluctance, that some tough executive action was needed to placate Congress and that economic concerns were gaining prominence in foreign policy. In other words, the threat posed by Japan's unfair competition exerted sufficient pressure on officials concerned about the bilateral security relationship to modify their position on Super 301 (Zeng pp.150-51).

Besides concern over endangering the trade talks, Republicans had a fundamental disagreement with Democrats over the nature and causes of the trade deficit. The article goes on to show that Hills does not agree with Democrats that the trade deficit is primarily caused by market barriers, but low savings and dependence on foreign investment, from the same article: [1. *Mc*] "She noted that the United States depends on foreign investment to help finance its budget deficit. Should this investment be withdrawn, she said in a colloquy with Senator Bill Bradley, Democrat of New Jersey, interest rates would 'skyrocket and we would obviously be in very dire straits'" (Farnsworth, 5/4/89).

1. Hills, like most Republicans, argued that the true cause of the trade deficit is from the low-savings rate of Americans (and conversely high savings rate among the Japanese). In order to avoid higher interest rates as a result of the lack of savings, foreign investment is a necessity. Hills is quoted here:

[T]he trade deficit is a product of broader economic factors, including the rate of savings, spending, and taxes. "Were there any message to be given to the American people...it is a recognition that we really must save more, which means the federal government must spend less, but also the American people must save more, which means the federal government must



spend less, but also the American people must save more.... We could open all the markets that we have enumerated and it would not correct our trade deficit.... [T]o tell the American people that if you all do is open these various markets the trade deficit will go away, that is not true (quoted in King 1991, pp. 245-46 note 3).

Here, Hills makes the same argument as Griswold. Griswold argues that foreign investment matches the trade deficit:

In 1996 Americans invested \$1,117 billion privately and another \$224 billion through government, for a total of \$1,341 billion in gross domestic investment. National savings, however, fell short of that amount requiring Americans to import a net \$133 billion in capital. That same year, Americans paid \$1,238 billion to the rest of the world for imports of goods and services, net transfer payments, and income on foreign investments in the United States, while receiving \$1,105 billion for exports and investment income. The result was a current account deficit of \$133 billion, equal to the net inflow of capital (Griswold 1998, Web).

Although Republicans pointed to the budget deficit and low-savings rate as key causes of the trade deficit, their analysis was shallow and superficial precisely because they did not carry this line of analysis into the causes of the budget deficit and low-savings rate: supply-side economics, Reagan tax cuts and stagnant wages (leading to low savings) among the American middle class. Recognition of and dealing with these root causes could have provided a justification for a further expansion of the Trade Adjustment Assistance program. Yet, Congressional Democrats squandered this opportunity, instead, resorting to the usual framing of the existential threat of Japan and pushing for punitive policies, especially when Japan was cited under Super 301 in 1989-90.

The most high profile, and really, only, conflict to emerge over the use of Super 301 and Japan was over supercomputers, satellites and wood products in 1989. Another *New York Times* article, "A Crowbar for Carla Hills," speaks to this conflict when Japan was cited under Super 301. Wood products were cited under tariffs that discriminated against finished products. In the case of supercomputers and satellites, the abusive practice identified were the procurement practices of the Japanese government. The claims alleged that discounting and other practices encouraged the Japanese government to purchase these high-value, high-tech products from Japanese producers, despite the

superiority of American products (Zeng 2004):

[1. *Mc*] One month after taking office, Hills named Japan, Brazil and India as unfair trading partners, but recently the Bush Administration decided that Japan apparently was mending its ways and should not be cited further. [2. *Mc*] Just weeks before the Trade Representative's office was due to take another look at the situation, the Japanese agreed to purchase from the United States more finished-wood products, supercomputers and communications satellites, the three areas for which Japan had been cited under 301 last year. [3. *Mc*] Many critics argue that these agreements, as negotiated by Hills's young staff, are vague and that the Japanese will backslide, as they have in the past. [4. *Mc*] But for the Bush Administration, eager to avoid friction with Japan, the new commitments appear to be sufficient. (Utichelle, 6/10/90)

1. After the USTR removed Japan from the priority list, more than 70 House members petitioned Hills to again cite Japan, and Congress tried to pass the Levin-Specter Bill (King p. 258). This legislation would label Japan an “unfair trading nation that discriminates against United States exports” (p. 258) and take away the President’s discretionary power over trade and initiate another investigation in spite of the USTR’s decision. The legislation would also have extended the Super 301 authority past 1990 (p. 259). Super 301 was later reinstated by the Clinton administration and Japan was again cited in 1994 over autos, forcing Japan to make another negotiated settlement (Rowley 1997).
2. The Super 301 investigation in supercomputers and satellites highlighted the use of government procurement practices. In forestry products it concerned tariffs on finished products compared to raw materials. In all three cases, the U.S. was able to use the threat of sanctions to force Japan to make concessions and to purchase more American products (Zeng 2004).
3. Zeng argues that exporters received “substantial gains,” but still classifies the supercomputer agreement as a “partial success,” resulting in “short-term market-opening outcomes” for supercomputer exporters like Cray Research (Zeng p.151). The satellite agreement resulted in companies like Loral Space Systems, Hughes Space and Communications Group, and General Electric to win bids for Japanese contracts (p. 157). Concessions over wood products made by Japan were estimated to add over \$100 million to U.S. exports (p.162).

4. After the administration opened Super 301 investigations, the National Association of Manufacturers (NAM) testified “the administration had done a masterful job” enforcing American law (Zeng p. 148).

The Super 301 conflict follows the same pattern of all the other trade conflicts. Although the Omnibus Bill contained provisions for adjustment assistance, Democrats focused their efforts on the punitive aspects of the law rather than strengthening and enlarging the adjustment aspects. Despite the aggressive campaign to cite Japan under Super 301, the Bush administration was able to outmaneuver Democrats on framing the importance of trade negotiations and the large budget deficit as alternative to the punitive framing sought by Democrats while also diverting attention away from structural weaknesses in the U.S. economy. Finally, despite the powers given by the law, it also failed to substantially reduce the trade deficit with Japan and revive American manufacturing.

## **VII. Conclusion**

Trade conflicts with Japan were one of the most high profile issues of the 1980s. The framing of these conflicts in public discourse reveal in all cases that structural policies were delegitimized in favor of punitive policies emphasizing quotas or tariffs. Even in the case of the Plaza Accord, structural reform policies were ruled out in favor of shifting the burden of adjustment to Japan. Democrats in Congress, rather than advocating for a more comprehensive long-term approach for manufacturing, pursued punitive policies. To the limited extent that Democrats argued for industrial policy, they were overwhelmed not only by the Reagan administration but due to internal divisions within the left that can be explained by the deep commitment to free trade norms by both the political right and left in the U.S. The existential threat of Japan Inc. was decisive in every conflict and served as a necessary component to legitimate punitive policy responses. This pattern reveals the limitations of free trade norms as it prevents the adoption of more progressive solutions instead of short-sighted policies that have been shown to be ineffective in addressing serious trade conflicts with Japan.

Trade tensions with Japan continued to intensify throughout the 1980s continuing into the early 1990s. Tensions in all probability would have continued to escalate if it were not for two critical junctures: 1) that the Japanese economy imploded in the early 1990s after its massive real estate and investment bubble economy burst. In Japan this is known as the “lost decade” and arguably Japan’s economy has never fully recovered and regained its vitality from earlier periods. Responsibility could be attributed to the Japanese developmental state itself impeding innovation, protecting uncompetitive industries, and allowing for too close a relationship between government and business, thus allowing corruption and other rent-seeking behavior. Some like Peter Evans have argued that as developmental states reach higher levels of development and as social groups become more mobilized, they lose that “embedded autonomy” that allows government bureaucracies to pursue economic policy free from the distorting influence of interest group politics (Evans 1995). In this case, while Japan’s developmental state helped facilitate enormous economic growth in the 1950s-70s, it began to impede growth as it reached higher levels of development. However, Chalmers Johnson argued that by the 1980s, Japan had already undergone extensive liberalization of its market structure (Johnson 1982).

Another explanation links the massive inflation of Japanese assets to the forced revaluation of its currency after the Plaza Accord settlement in 1985. The rapid appreciation of the yen after 1986 helped contribute to the inflation of Japanese assets. To the extent this is true this helps explain why other governments including China are much more wary of following U.S. policy prescriptions to rapidly move towards revaluation and appreciation.

2) The second factor was that during the 1990s China began to replace Japan as the country running the highest trade deficit with the U.S. and came to symbolize the threats from foreign states to the weakened position of U.S. industry, in the case of China this was intensified even more after the repression of the Tiananmen Square protests. However, during the 1990s although rhetoric was often

intense the U.S. had never actually gone through with raising tariffs or other sanctions against China. As Zeng has argued this could be explained by the discrepancy between industries that were competing against Chinese imports (most importantly the textile industry) from exporters who benefitted from trade with China as well as industries that used Chinese imports in production. However since the beginning of the 21<sup>st</sup> century as China has transitioned to more capital-intensive industries this has raised the level of competition with U.S. exporters, creating the conditions that Zeng argues often lead to tariffs and possibly provoking a trade war, that is the alignment between aggrieved importers and exporters.

Although government interventions in trade were common during the Reagan administration and after, these episodes were all primarily reactive, ad hoc, and sporadic and does not conform to the more integrated planning of industrial policy. Furthermore, since more progressive options were not considered feasible, like adopting a public healthcare system or more extensive government funded pensions as a means of reducing the enormous debt burdens on struggling industries, the only acceptable choice was to initiate tariffs as a means of correcting trade related imbalances. Despite the free-trade rhetoric, reality forces the administration to pragmatically act in ways that betray its principles. What is curious about this is that at no point does this challenge or alter the basic principles of free trade ideology held by the administration, and increasingly shared by the Democratic Party especially from the Clinton administration and on. Just the opposite, after the end of the Cold War there was even less of a tendency to challenge the dominance of free-trade ideology which quickly became embedded into arguments proclaiming the end of history (Fukuyama 1989, 1992).

After the Cold War, many advanced democracies began to dismantle the social welfare states that had been established in the 1930s. International institutions like the IMF, and after 1994, the new WTO began an even more aggressive campaign to push foreign governments to implement the policy

paradigm referred to as the Washington Consensus. However, by the end of the 1990s there was already a massive reaction against these as foreign governments struggled to find a different alternative than the supposed end point of liberal democratic capitalism. The shortcomings of this paradigm can be revealed simply from analyzing the behavior of the U.S. during the preceding decade, however after crises in Mexico, Russia, and then almost all of East and Southeast Asia in the 1990s, this paradigm became increasingly discredited, in almost all corners of the world outside of the U.S. After the massive global financial crash in 2008, the paradigm lost even more credibility even in the developed Western world where the neoliberal paradigm more durable than in the developing world -- again with the exception of the U.S.

## **4. Trade Conflicts with China: 2001-present**

### **I. Introduction**

In this chapter I will look at several trade related conflicts with China. Unlike Japan, where trade discourse was heated but never turned into full-fledged trade wars, trade conflicts with China, especially recent ones, have turned into actual trade wars on numerous occasions. Besides trade wars, the debates on exchange rate adjustment are extremely volatile, even more volatile than in the build up to the Plaza Accord with Japan. So far, China has been more resistant to U.S. demands for exchange rate adjustment. There has also been more resistance on the part of the U.S. in allowing Chinese investors to purchase U.S. assets. As with Japan, the punitive nature of these conflicts on the part of the U.S. can be explained by the dominance of free trade norms. The dominance of these norms delegitimizes more progressive policies for trade adjustment. This pushes some in the Left to advocate punitive policies to restrict access to the U.S. market. In turn, this causes division in the Left and weakens their critique of the right-wing neoliberal economic agenda. Punitive policies are a fallback position in the absence of structural reform policies, and this punitive position also requires an existential threat in order to legitimate punitive policies. Thus, the deep framing of free trade norms, as it did with Japan, also leads to punitive trade policies towards China, this can be explained in the following ways:

- 1) The construction of an existential threat to the U.S., even more menacing than the threat of “Japan Inc.” in the Chinese Communist Party (CCP), influences the framing of every U.S. conflict with China. Japan does not have the same human rights problems in the present, as does China, and Japan enjoys close ties to the U.S. Regarding China, there does not seem to be much to counter-balance to the perception of threat.

- 2) The entrenchment of free trade ideology in U.S. discourse in the 21<sup>st</sup> century is even deeper

and there is virtually no discussion of industrial policy, though there is still ambivalence over the desirability of punitive policies. However, as seen in trade conflicts with Japan, the limitations on legitimate policy choices leaves little alternative other than punitive policies. Similar to the 1980s, the Left, represented by progressive Democrats in Congress and labor unions, lack a substantive critique of the Washington Consensus, instead resorting to the same bombastic type of arguments made against Japan in the 1980s, with slightly less racism but more militarism.

The only real restraint for tougher actions against China seems to originate from two sources, political and economic. Politically, the U.S. needs China's support on a variety of issues from climate change to negotiating nuclear talks with Iran and North Korea, to the "war on terror," and other issues as well. In terms of economics, the interdependence between Chinese manufacturing and U.S. investment (along with Chinese financing of U.S. debt) diffuses some of the tension, perhaps most noticeably in Treasury's refusal to label China a currency manipulator for almost ten years, despite continuous pressure. If the long-history between the U.S. and Japan, before World War II and especially after, served as a mediating force that limited punitive policies in this case, the opposite dynamic prevails. In other words, the U.S. and China have an antagonistic history for most of the Cold War period and in the post-Tiananmen era. Another important factor are the role of institutions like the IMF and the WTO that exert more of a restraining force in trade conflicts with China.

Serious trade conflicts with China are recent, dating back to the last 20 or 25 years. Congress has consistently held a negative opinion of China since the Tiananmen Square Massacre of 1989. Prior to this period, the U.S. government as a whole tended to portray a more positive image of China, especially in contrast to the Soviet Union. The POTUS, regardless of which party, has tended to pursue a more conciliatory approach towards China, but does not exclude occasional rhetorical barrages, especially during election years. On the whole, the POTUS, whether it was Clinton or Bush I and II, were unwilling to risk trade war with China. With the Obama administration, there has been a new tone



of aggressiveness and confrontation with China, resulting in trade wars over more conventional industrial products like tires, or high-tech innovative industries like solar panels.

As trade conflicts with China became a high-profile public issue in the early 1990s, this new focus could in part be attributed to the growing volume of the trade deficit with China that exceeded the deficit with Japan during the 1990s, as well as the attention given to the protests and resulting government crackdown during the Tiananmen Square massacre (as evidenced by efforts to attach human rights legislation to trade bills in the 1990s). International human rights concerns were fused with complaints over Chinese trade and industrial practices from many industrial sectors. However, as documented by Ka Zeng, the U.S. had little success in winning concessions from China on trade issues ranging from intellectual property rights to "most favored nation" (MFN) status during this period of time (Zeng 2004). Aggrieved interests were largely unsuccessful in their efforts to raise tariffs on Chinese imports.

Some of the major trade conflicts involving China in the 21<sup>st</sup> century were the U.S. steel tariff of 2002 that resulted in China (and many other states) placing retaliatory tariffs on steel imports from the U.S. Other conflicts do not fit into the category of trade wars, for example, the ongoing issue over pressuring China to revalue its currency, allowing it to appreciate to raise the prices of Chinese imports and lower the price of imports from the U.S. Another issue that does not fit into the category of trade war, but clearly represents a serious trade conflict, was the attempted purchase of the Union Oil Company of California (Unocal) by the Chinese National Off-Shore Oil Company (CNOOC). In this case, the ominous security and military implications of trade with China are most prominent. Finally, another ongoing issue is the trade war over Chinese solar panels that speaks to the increasing conflict over high-tech industries, rather than labor-intensive low-tech industries for which China's economic growth has been associated with, as well as the importance of renewable energy.

## **II. Steel Tariff: 2002-2003**

In March 2002, President Bush initiated tariffs up to 30 percent on steel imports, not unilaterally directed at China, but impacting all states that export steel to the U.S. The U.S. steel lobby, with strong ties to “swing states” in Presidential elections like West Virginia, Pennsylvania and Ohio, sought tariffs as a way of raising the price of steel (Ho 2003). Within two months both the EU and China (and a host of other impacted states) filed a formal complaint with the WTO, and announced that they would raise tariffs on U.S. products. China did retaliate against this decision and initiated its own tariffs up to 26 percent on imports of steel and steel-related products (including Japan and South Korea), thus turning this conflict into a full-fledged trade war. Although the tariffs were originally set to last until 2005, they were removed by the end of 2003 after the WTO ruled against the U.S. tariffs and authorized EU sanctions over \$2 billion against the U.S. (the largest sanctions ever authorized by the WTO). China and a several other states including Taiwan, South Korea, Brazil, and the European Union were among the parties who filed a dispute with the WTO. The mediating role played by the WTO and its Dispute Settlement Body (DSB) were perceived as diffusing a potentially tense situation and mild trade war which could have easily turned into a major trade war subject to multiple rounds of retaliation from several affected parties. A consequence of the decision to impose tariffs weakened the dollar and thus stimulated exports that helped to reduce some of the protectionist sentiment from U.S. exporters. Perhaps the major economic catalyst for the Bush steel tariff was the price of steel had plummeted by about a third since the "Asian financial crisis" of the late 1990s causing a surge in imports as a result of the reduced price of steel and the need to dispose of “excess capacity” (Pollard and Coughlin 1999). After the crisis many Asian governments began to abandon the Washington Consensus model and resumed a more interventionist role in the economy.

The Bush steel tariff in 2002 continues a trend of Republican presidents who profess a free

trade ideology, but in practice raise tariffs and impose quotas to consolidate electoral majorities in "swing states." The ideological commitment to the "Washington Consensus" and the institutional structure of a liberal market economy, on the one hand, effectively limit policy responses to tariffs rather than more progressive responses, e.g. the refusal of the administration to take on the fiscal responsibility for worker's healthcare and pensions that manufacturers alleged to be one major reason for their lack of competitiveness. On the other hand, this creates the perception for U.S. manufacturers of "illegal subsidizing" and "dumping" on the part of more coordinated market economies. At the same time, although the U.S. steel industry condemns foreign exporters for subsidizing their industries, the U.S. steel industry also lobbies the government for financial assistance. The administration is driven to placate these interests (although without providing the kind of assistance asked for).

The professed reasoning of the administration to initiate tariffs was to protect U.S. industries from cheap imports that were "dumped" in the U.S. market (Ho 2003). Under Section 201 of U.S. trade law, the President can intervene against foreign imports, even if no evidence of dumping can be found. Little evidence of dumping, as defined by the WTO, was found and the tariff was declared illegal. As in other trade conflicts, actual substantive evidence of a threat to the U.S. was not there, and the supposed "flood of imports" to the U.S. could be attributed to the aftermath of the Asian Financial Crisis and recessions in Europe and Asia (Hufbauer and Goodrich 2002; Ho 2003). Yet, discussion over the increases in imports and fall in the price of steel among the Left was not framed in this way, but, again resorted to the framing of an existential threat to the U.S. and the absolute need to protect an industry so closely tied to defense, a framing constructed by Democrats (and some Republicans) in Congress, as well as the Republican administration. To the extent that tariffs were implemented to allow the steel industry to restructure itself, as the President claimed, this "restructuring" resulted in most U.S. steel companies being purchased by European and Japanese conglomerates.

When looking at the framing of this conflict in political discourse, as in the trade conflicts with

Japan, policy options for dealing with steel are limited to punitive options. Due to the free trade norms that frame every debate over trade, more extensive structural reform is delegitimized. Before the tariffs are imposed news media presents the plight of the steel industries. Since the Asian financial crisis the price of steel has plummeted. However, the long-term decline of the steel industry has been ongoing since the 1970s (CBO 1984; Hufbauer and Goodrich 2002). Since policy choices are limited to punitive options, the existential threat of foreign imports must be invoked. Advocates of tariffs argue that foreign governments subsidize their industries, thus driving down the cost of steel, while ignoring the impact of the Asian financial crisis in driving down the price of steel. The dominant rationale for tariffs was in response to the subsidies provided by foreign governments. Yet, the validity of this assertion seems to be undermined when the industry lobbies the government for the same kind of assistance, for example, in the *New York Times* article, "Steel Users Campaigning Against Curb on Imports":

[1. *Mc*] Steel makers and unions have asserted that the trade protections are vital to protect the industry against a flood of cheap imports, which they say are made possible because foreign governments subsidize steel companies. [2. *Mc*] Most of the major integrated American steel companies are in serious financial trouble and need government help to stay in business, the companies have said (Kahn, 1/23/02).

1. The claim for “dumping” under Section 201 was made on the basis of the low price of steel. Section 201 cases do not have to prove dumping, but only that imports are a “substantial cause of serious injury or threat of serious injury,” and even if imports are traded fairly can still be considered a cause of injury (Hufbauer and Goodrich 2002). The results of the Asian Financial Crisis had depressed the price of steel. Furthermore, according to Ho, in the U.S. there was at least 15 million tons of domestic excess capacity that also depressed the price of steel (Ho 2003; Hufbauer and Goodrich 2002). American firms were also uncompetitive due to high “legacy costs,” i.e. pensions and healthcare costs. In previous conflicts, like the Chrysler bailout, high costs were framed in a way to put the burden of adjustment on workers and to legitimize wage cuts and other concessions, this was done as well for steel (Hufbauer and Goodrich 2002).

2. Lack of investment and modernization are persistent issues with the U.S. steel industry since the 1970s. Despite attempts at modernization, and increases in productivity, the industry continued to decline in price competitiveness to foreign imports. As a result, U.S. steel companies and unions seek assistance from the government, at the same time, they condemn foreign governments providing financial assistance to their own industries. Similar points are made by D'Costa, who argues:

The slow diffusion of modern technology and import competition in the U.S. undermined the financial strength of American steel firms, leading to obsolete excess capacity. The industry responded with major restructuring at the plant level, reorganizing production assets by eliminating capacity and selectively modernizing plants. Unable to cope with the crisis, the industry also abandoned its self-regulatory approach in favor of a more cooperative business-government partnership (quoted in Ho, p. 830)

As the article continues, the steel industry, specifically, seeks relief for the high legacy costs of these firms: [1. *Mc*] “Steel companies say such so-called legacy costs have eroded their profitability.

[2. *Mc*] They have asked the Bush administration and Congress for as much as \$13 billion in aid.”

1. In 2002 the United Steelworkers Association estimated aggregate costs of pensions and healthcare to be over \$1 billion annually (Hufbauer and Goodrich 2002).

2. The “legacy costs over the actuarial lifetimes of workers and retirees are said to total \$13 billion” (Hufbauer and Goodrich, Web).

These requests will be denied and put American producers at a disadvantage against foreign steel companies with more generous social entitlements. By delegitimizing structural reforms that would see the government take over pensions and healthcare costs of struggling firms, and why with no other options, the industry is forced to seek tariffs as the only means to stay competitive.

Free trade norms and the liberal market institutions of the U.S. severely limit policy responses to trade conflicts. At the same time, the Bush administration must respond to electoral pressures from voters in swing states. Although the administration is compelled to placate aggrieved interests in swing states, the policy options of the administration are limited to tariffs once structural reform has been

delegitimized, as shown here, in *The New York Times* article "Bush Officials Meet to Seek a Compromise On Steel Tariffs," from March, the month the tariffs are initiated: [1. *Mc*] "The administration appears to have firmly ruled out meeting the industry's demand for a bailout of the pension and health care costs for retired steel workers" (Kahn and Sanger, 3/1/02).

1. After the International Trade Commission (ITC) has determined damage has been done in a Section 201 investigation the ITC suggests possible recommendations for the President. The ITC can suggest trade adjustment assistance, but most of the time, including in this instance, suggest tariffs or quotas (Hufbauer and Goodrich, 2002). The administration's average tariff rate was 30% compared to 40% recommended by the ITC.

The dominant framing of the steel industry's troubles is attributed to lack of investment in new steel producing technology, and the high costs of providing pensions and healthcare benefits for steel workers.

To further delegitimize claims for pension and healthcare bailouts, older, unionized integrated mills are compared unfavorably to smaller minimills that are more efficient but provide less for workers. *The New York Times* article "The Nation; Beyond Tariffs: Why Steel Isn't Dead," questions the viability of older, larger, integrated mills as opposed to more efficient minimills. These mills, although smaller, produce more than integrated mills (CBO 1984; Hufbauer and Goodrich 2002). As discussed earlier, a major factor that makes the older mills uncompetitive are the large pension and healthcare financial burdens, burdens which are not shared by mini-mills but who generally provide less benefits for their employees and have weaker unions: [1. *Mc*] "Generally, it is the newer half of the American industry that is highly competitive: minimills that use electric furnaces to melt scrap to make steel. [2. *Mc*] What is ailing is the heavily unionized, older half of the industry, which makes steel with coke, iron ore and blast furnaces" (Greenhouse, 3/10/02).

1. Hufbauer and Goodrich, of the Petersen Institute for International Economics, argue the legacy costs for minimills are lower and require less capital, as a result, by 2002 production in these mills had doubled since 1975. They state that the fixed costs for a ton of hot-rolled steel for a minimill is about \$30, compared to \$130 for an integrated mill. However, when taking into account variable costs the final result is much slighter, a minimill produces a ton of steel for \$315 compared to \$350 for an integrated mill (Hufbauer and Goodrich 2002).

2. Hufbauer and Goodrich state the compensation for steel workers is significantly higher than in other industries, averaging \$17 higher than other private sector workers and \$14 higher than other manufacturing workers, and in the 1970s wages continued to rise even as productivity declined (Hufbauer and Goodrich, 2002). However, they ignore the larger context of stagnant wages for most workers since the 1970s (Thurow 2001). They argue these “generous benefits” are a cause of the uncompetitiveness of steel, compounded by the increase in bankruptcies of many firms: “The piper is now demanding payment. Generous health and pension benefits from years past, combined with mass layoffs, have now erupted in high ‘legacy costs’ for the integrated steel industry. The legacy cost problem is compounded by the inability of bankrupt firms to pay health and pension benefits to their retired workers.” (Hufbauer and Goodrich, Web).

Comparisons between integrated v. minimills, leads to a discussion of "sunset" industries and what are the appropriate policy responses for dealing with them, from the same article: [1. *Mr*] “The real question we should face,’ said Robert Crandall, an economist at the Brookings Institute, ‘is how quickly do the dying giants fade away?’” (Greenhouse, 3/10/02).

1. Crandall, a strong advocate for minimills, argues that structural forces will continue to push the older mills into decline:

The old integrated companies are now such a small part of the economy as to be virtually unnoticed by Wall Street. The entire lot of them is smaller than the 100<sup>th</sup>-largest U.S. industrial company. They still employ 105,000 workers or so, but this is only 0.07% of the U.S. labor

force. Their total employment will continue to decline regardless of U.S. import policy as the minimill companies keep expanding (Crandall 1999).

However, no mention is made of other structural factors like healthcare and pension costs. Certainly structural forces have driven the companies into rapid mergers. LTV Steel was "saved" by the formation of the International Steel Group in 2002, which in turn was acquired by Luxembourg-based Arcelor in 2005 that later merged with the Indonesian based Mittal Steel, in 2006, to form ArcelorMittal, the largest steel corporation in the world (PR Newswire 2002; Kanter et al, 2006). Bethlehem Steel ceased operation in 2003 and is now also part of ArcelorMittal, along with the Inland Steel Corporation as well (Lusanne 2015).

Despite attempts at legitimizing structural reform by suggesting adjustment programs to gradually cut back on excess steel capacity, the limitations of free trade norms undermine these claims for more long-term strategic planning for the steel industry.

With structural reform ruled out, Democrats are forced to pursue punitive policies (Paulsen 2001). In another article for *The New York Times*, "Bush Puts Tariffs Of As Much As 30% On Steel Imports": [1. *Mr*] "Democrats today blamed Mr. Bush for doing too little, rather than too much. [2. *Mc*] 'Last week the steel companies and the steel worker unions agreed that 40 percent was the minimum average tariff needed to stabilize the industry,' Richard A. Gephardt, the Democratic leader, said in a statement today" (Sanger, 3/6/02).

1. Democrats, forced to respond to demands by strategic interests but constrained by free-trade ideology, are unable to lobby for structural reforms and thus seek even more severe tariffs than what the Bush administration has proposed.
2. Some Democrats propose tariffs as high as 80 percent (Ho 2003, p. 833). A 40 percent increase is meant to offset the fall in prices since the Asian financial crisis. Tariffs averaged 8 percent to 3 percent. This argument places blame for the fall in prices on foreign imports, rather than as a consequence of



decades of underinvestment and rising costs for U.S. industries, as well as the failures of the neoliberal paradigm that created the Asian financial crisis (Paulsen 2001).

Gephardt acknowledges closed alternatives for structural reform, i.e. the administration providing aid for healthcare and pensions, that virtually forces Democrats to pursue punitive policies in order to respond to irresistible demands for protection from international trade: [1. *Mr*] “He also noted that Mr. Bush ‘did nothing’ to help with the pensions and health care costs of retirees. [2. *Mc*] But the White House said that action was up to Congress, and not within the president’s powers” (Sanger, 3/6/02).

1. House Bills like the Steel Industry Legacy Relief and Transition Act of 2002 would have created an agency to oversee healthcare claims and pool resources to fund the \$13 billion liability and the Senate American Steel Industry Act of 2001 that would have established a healthcare trust fund for steel workers were both defeated in Congress (Ho p.834). According to Hufbauer and Goodrich, the Bush administration pursued tariffs under Section 201 as a way of stalling the highly protectionist Steel Revitalization Act (Hufbauer and Goodrich, 2002). This bill would have placed five year quotas on steel imports, but would have also made provisions for a healthcare fund by placing a 1.5% surcharge on steel sales in the U.S. (CR vol.147, p.9458)

2. With a Republican House in 2002, and full control of the Congress after the 2002 elections there was little chance for legislation to provide relief for the steel industry.

Policy options may be limited to punitive policies, but as international trade grows, the demand for trade protections only intensify, and with no other legitimate options, it becomes easier to succumb to the temptation to punish scapegoats.

The ideological commitments of the Bush administration and the institutional structure of the U.S. market work against providing financial assistance demanded by the steel industry, but electoral pressures exert an almost irresistible force that compels the administration to act. Thus, there is tension generated between the systemic imperatives associated with “political business cycles,” that push

politicians to provide short-term economic relief and the ideological commitment to free trade (Iversen and Soskice 2006). With more progressive avenues closed off, the only acceptable alternative is punitive tariffs as a means of placating interests in critical swing states, from "Bush Officials Meet to Seek A Compromise on Steel Tariffs," [1. *Mc*] "It is a critical political issue in West Virginia -- which Mr. Bush narrowly won in 2000, partly because he pledged to do more than President Bill Clinton to act on the industry's behalf -- as well as other swing states like Pennsylvania and Ohio" (Kahn and Sanger, 3/1/02).

1. President Clinton's assistance to the industry was limited. In 1999, he proposed a \$300 million tax break for steel companies, prompting USW President George Becker to respond: "What with \$300 million in tax breaks do for steelworker's families, whose dreams of a decent life are being crushed...or for those communities which will be devastated when these mills go down?" (Labor Party Press 1999). Ho argues that tariffs were strategically designed to benefit interests in swing states, he says: "the tariff structure differentiates rates applicable to different types of steel. For example, tin-sheet steel, produced in West Virginia and South Korea, was included in the schedule of tariffs at a higher rate than the rate imposed upon an unrefined type of imported call steel slab used by automakers in Michigan" (Ho p.832).

The focus on domestic politics in the administration is personified in Karl Rove, Bush's top advisor, also from the same article: [1. *Mc*] "West Virginia, Ohio and Pennsylvania are critical in that effort, and Mr. Rove wants to make sure that President Bush can claim to have done far more to preserve steel industry jobs than President Clinton did in the 1990s" (Kahn and Sanger, 3/1/02).

1. Republicans ended up winning 8 more seats in the 2002 mid-term elections, including Ohio and Pennsylvania. Ohio was also decisive in securing victory for the administration in 2004. Hufbauer and Goodrich argue that the President also needed to placate states in the "steel caucus" in order to renew

Trade Promotion Authority, or “fast-track authority” (Hufbauer and Goodrich, 2002).

The limited policy options permissible when all trade conflicts are framed by free trade norms forces punitive responses. Pragmatically, a punitive approach is an inefficient way to address trade conflicts since they are illegal under GATT/WTO rules, especially lacking substantive evidence of dumping. The USTR must negotiate with the WTO and present a case for tariffs. The major weakness in the administration’s argument is that foreign imports have been declining, thus undermining the case for foreign dumping, from the same article:

[1. *Mc*] But it is Mr. Zoellick who will have to defend the president's final decision before the World Trade Organization, where any tariffs would very likely be immediately challenged as a violation of America's obligation under international trade rules. [2. *Mc*] A major problem for the administration is that most steel imports have been falling in recent years after surges during the Asian crisis in the late 1990s, making it tougher to justify punitive tariffs (Kahn and Sanger, 3/1/02).

1. Article VI of the GATT provides procedures for responding to dumping, however it requires that evidence of actual dumping be shown, that is the product being sold at less than “normal value” (Ho p. 828). U.S. law only requires that some “material damage” be done to U.S. industries. Even in the case of illegality, no punitive action is authorized under the WTO, only countermeasures “equivalent” to the “nullification or impairment” caused by another member failing to carry out its WTO obligations (Mavroidis 2000).

2. One of the major disparities between U.S. trade and international law, is that under Section 201 of the Trade Act the President is authorized to raise tariffs against imports that damage American industries, even if no evidence of dumping or other unfair trade practices can be shown.

The most damning piece of evidence against a punitive response, shows imports declining in the years leading up to the steel tariff, from the article "Bush Puts Tariffs Of As Much As 30% On Steel Imports," again the lack of evidence to justify the tariffs is highlighted. With no evidence to show a surge in imports, the claim for dumping is severely undermined:

[1. *Mc*] Their legal case, which could take years to litigate in Geneva, is likely to hinge on the fact that the 'import surge' Mr. Bush declared as the justification for his action ended in 1998.

[2. *Mc*] Since then, foreign imports of steel to the United States have declined 27.5 percent, but the price of steel has also fallen sharply because of the simultaneous recessions in the United States and Japan, and a slowdown in Europe (Sanger, 3/6/02).

1. The lack of an "import surge" weakens the argument for dumping and thus cannot be used to legitimize anti-dumping tariffs. The WTO's decision took less than a year.

2. The tariffs were designed to raise the price of steel, it did driving up prices by as much as 60-80% for some steel products (Francois and Baughman 2003 p. 6). Francois and Baughman estimate that over 200,000 people lost their jobs as a result of higher steel prices, more than the 188,000 employed in the industry (p. 12).

The movement towards protectionism seems to have halted by the end of the summer, after the International Trade Commission ruled against attempts at imposing another round of tariffs by the steel industry, as described in this article from *The New York Times*, "Panel Rejects Effort To Add A Steel Tariff": [1. *Mc*] "The bipartisan International Trade Commission ruled 4 to 1 that American steel mills were not being injured by imports of cold-rolled steel from five countries and that there was no need to impose tariffs that could have run as high as 150 percent on some products" (Andrews, 8/28/02).

1. The ITC originally ruled in favor of steel industries and supported the claims that industries were being damaged by cheap imports. Its reversal now suggests that it can no longer support this claim in the face of the lack of substantial evidence.

The article goes on to emphasize the restraining effects of international institutions like the WTO. The rules of the WTO clearly contradict U.S. trade law: [1. *Mr*] "As a practical matter, the whole concept of protection against dumping may be near the end of its days. [2. *Mc*] Since the 1995 creation of the World Trade Organization, which acts as an international arbiter of trade disputes, the United States has lost all or at least part of ever steel-dumping action that has been challenged by other countries."

1. Dumping depends on the notion of predatory pricing, and can be summarized as follows by Ho:

Illegal dumping occurs when a foreign producer of a good intentionally exports their product at a lower price than it cost to produce the good during the ordinary course of trade. Under economic theory, the reason for producers to sell at a loss in a foreign market is to create long-term dominance while taking short-term losses. Under this reasoning, these producers practice predatory pricing in order to drive out local producers. They charge cut-rate prices initially only to secure a monopoly in the end, thus compensating for immediate losses. However tenuous the theory may be, it is one of the only clear cases of dumping that would justify WTO-approved safeguard measures (Ho p. 828).

However, actual instances of predatory pricing are exceedingly rare, and often decreases in pricing or increased competitiveness from imports can be explained by other factors.

2. U.S. trade law does not have to prove dumping in order to initiate tariffs, but this flagrantly contradicts WTO principles.

The case for tariffs is weakened by the lack of substantial evidence to show evidence of dumping, or other malicious conduct on the part of foreign steel exporters. At the same time, there is another framing of this conflict that can be substantiated to argue *against* tariffs: that tariffs lead to higher prices for consumers and often provoke retaliation. This perspective is articulated in this article from *The Journal of Commerce*, "Ports, Carriers Hit Steel Tariffs":

[1. *Mc*] "Although we acknowledge that the President did not implement the full range of 40% tariffs favored by the domestic steel industry, the decision will nonetheless intensify the already steep decline in steel imports that is putting port and maritime personnel out of work, said Port of New Orleans Commissioner David Schulingkamp. [2. *Mc*] "Make no mistake, this is going to hurt this Port and the entire region in which we operate. [3. *Mc*] It is also likely to lead to retaliation from steel-producing countries and could precipitate a full-scale trade war with many of our most important trading partners" (Hensel Jr., 3/6/02).

1. Francois and Baughman claim that almost 200,000 workers lost their jobs as a result of the steel tariff, up from an original estimate of 74,000 (Francois and Baughman, 2003 p. 15).

2. Tariffs caused a shortage in the steel supply. Steel imports virtually ceased between March, April and May (Francois and Baughman p. 5).

3. The Port Commissioner correctly predicts the outcome of this conflict and suggests a better grasp of

the empirical determinants of this conflict better.

Lacking any real substantive critique of free trade ideology, and unable to generate support for structural reforms, advocates for the steel industry point to its importance for national defense. In another article from *The New York Times*, the day the tariffs go into effect, March 4th, "Bush Weighs Raising Steel Tariffs But Exempting Most Poor Nations," they highlight the national security implications of a strategic industry such as steel: [1. *Mr*] "Mr. Bush has been sympathetic to the argument that American security hinges on preserving the steel industry." (Sanger and Kahn, 3/4/02).

1. In early 2001 President Bush was seen as enjoying a "cozier" relationship than President Clinton previously had, amid continuing decline for the industry throughout the 1990s (Nevers 2005). The President said at a rally for the USW in August 2001: "Steel is an important jobs issue; it is also an important national security issue. I am here to trumpet one of the great values of America. That's the enterprise of the American worker, the hardworking American citizens who make this economy go. And those are the steelworkers of America. I appreciate what you do for the country" (quoted in AISI, 2007).

Congressional Democrats like Sen. Carl Levin, are quoted from the same article: [1. *Mc*] "'Our weapons are made of steel,' Senator Carl Levin of Michigan, chairman of the Senate Armed Services committee, told a cheering crowd of steelworkers Thursday, before going to the White House to make another appeal."

1. A joint report prepared by the American Iron and Steel Institute (AISI) with the Specialty Steel Industry of North America (SSINA), the Steel Manufacturers Association (SMA) and United Steel Workers (USW), states the following:

The President and other U.S. government leaders have recognized repeatedly the critical interdependence of steel and national security. The American steel industry and the thousands of skilled men and women who comprise its workforce produce high quality, cost-competitive steel products for military use in applications ranging from aircraft carriers and nuclear submarines to Patriot and Stinger missiles, armor plate for tanks and field artillery pieces, as

well as every major aircraft in production today. These critical applications require consistent, high-quality on-shore supply sources (AISI et al, p.2).

However, in "The Nation; Beyond Tariffs: Why Steel Isn't Dead": the claim for the strategic importance of steel is now questioned: [1. *Mc*] "Domestic steel, the pro-steel line went, is needed to make bombs, tanks and ships. [2. *Mc*] But some say the Pentagon could easily meet its steel needs from allies overseas."

1. The AISI report goes on to say:

The September 11 attacks on the United States made it clear that (1) steel will be needed to "harden" existing U.S. infrastructure and installations and (2) a strong and viable domestic steel industry will be needed to provide immediate steel deliveries when and where required. Consider the potential difficulties the U.S. would face in defending, maintaining and rebuilding infrastructure in an environment where our nation is largely dependent upon foreign steel. By becoming even more dangerously dependent upon offshore sources of steel, the United States would experience sharply reduced security preparedness in the face of:

- Highly variable, and certainly higher, costs;
- Uncertain supply, impacted by unsettled foreign economies and politics;
- Quality, design and performance problems;
- Inventory problems, long lead times and extended construction schedules (AISI et al, pp. 3-4).

2. It is debatable how easily this need could be met since as of 2006 China is the largest exporter of steel to the U.S. (AISI et al, p.7).

The article goes on to question the strategic importance of steel for national security: [1. *Mc*] "And some say software, not steel, is now the linchpin of defense. [2. *Mc*] 'Security isn't about basic metals,' said Loren Thompson, an analyst at the Lexington Institute, a military policy research center. 'It's about photons and electrons.'"

1. The importance of cyber-warfare has become more important since 2002. In this area as well, China is seen as a major threat to the U.S. (Bremmer 2015).

2. The use of particle accelerators has recently seen major breakthroughs in the ability to scan cargo for

possible nuclear weapons (Duque 2015). The development of the Free Electron Laser (FEL) has tremendous capacity for weapons use as well, and has been advocated by the Navy (Energy 2014; ONR 2012).

Even the once unchallengeable assumption that steel is vital for national defense has now had its foundations shaken, by rapid developments in 21<sup>st</sup> century technology.

Besides resorting to the national security implications of the steel, arguments for “fair trade” are used. However, actual substantive evidence of dumping is never provided, because the malicious intent to dominate the market and put competitors out of business cannot be substantiated, from the article “Bush Weighs Raising Steel Tariffs But Exempting Most Poor Nations,” Democratic leader Sen. Tom Daschle is quoted as follows: [1. *Mr*] “If we're serious about having free trade, then we've got to make sure we also have fair trade, and we don't have fair trade in steel today,’ Mr. Daschle said” (Sanger and Kahn, 3/4/02).

1. The existential threat of foreign imports tends to be framed around the idea of “fair trade,” in order to justify punitive tariffs, as in the case of Japan. More often than not, this framing conceals the interest group politics motivating this conflict, the article goes on to say: “Mr. Daschle, from South Dakota, a farm state, called for protection for American farmers, and Mr. Lott, from Mississippi, said the timber industry needed to be shielded.” However, like in the conflicts with Japan there is no substantial evidence to prove unfair trade practices. In this case, other, more credible, explanations can account for the decrease in the price of steel: weak demand and excess capacity.

Lack of empirical evidence can be contrasted with platitudes for fair trade (and celebrations of the military-industrial complex). For example, Mr. Daschle's comment on fair trade, or in this case, a statement from President Bush who declares the importance of freedom and the integrity of the law in trade -- while standing with Hosni Mubarak, from “Bush Puts Tariffs Of As Much As 30% On Steel



Imports":

[1. *Mr*] Mr. Bush defended his move in an appearance tonight with President Hosni Mubarak of Egypt. "We're a free-trading nation, and in order to remain a free-trading nation, we must enforce law," he said. "And that's exactly what I did. [2. *Mc*] I decided that imports were severely affecting our industry, an important industry, in a negative impact, and, therefore, provide temporary relief so that the industry could restructure itself" (Sanger, 3/6/02).

1. As already stated, the tariffs would be declared illegal under international trade law by the WTO.
2. Again, most evidence would show the fallout from the Asian financial crisis is what damaged the industry, alongside the excess capacity of worldwide steel production. Restructuring will have to take place without government assistance for healthcare and pensions. The end result is European conglomerates, like ArcelorMittal, now own most U.S. steel firms.

Structural reform policies are delegitimized due to the framing of trade conflicts around free trade norms. Policy options are limited to punitive policies. Again, the Left is divided over its commitment to respond to constituents and its commitment to free trade norms. The Left cannot unify around a substantive critique of right-wing economic policies. As a result, the Left is unable to achieve structural reforms for healthcare and pension and to provide sufficient trade adjustment assistance to displaced steel workers that will also allow the industry to reduce its excess capacity. In this case, the existential threat is all foreign imports, including China (which is soon to become the leading steel exporter in the world). The construction of this threat in public discourse is, in many ways, directed at the international system itself, a system that many Americans believe no longer provides benefits. Paul Krugman, in "America the Scofflaw," for *The New York Times*, examines the steel tariffs in reference to the hostility displayed towards the international system: [1. *Mc*] "In sheer economic terms, the steel tariff is not that big a deal. [2. *Mr*] But it demonstrates an unprecedented contempt for international rules" (Krugman, 5/24/02).

1. The limited nature of the tariff, the exemptions for certain states, the limited extent of the tariffs themselves suggests that the policy will have very little practical effect.

2. Jones, Forman and Gowan argued that the Bush administration essentially outdid itself the following year in contempt: “For many observers, the U.S. decision to go to war against Iraq in March 2003 in the absence of an explicit Security Council mandate served as evidence that Washington had nothing but contempt for international rules and norms and multilateral institutions” (Jones, Forman and Gowan 2009 p. 143).

Krugman goes on to explain how this tariff will lead to retaliation from other countries, as well as making it easier for other countries to emulate the U.S., as well as the costs to consumers. The purpose of trade agreements is to prevent protectionism. Trade agreements are an extension of the principle of checks and balances to trade. This is meant to offset the tendency for "organized minorities" to push through laws and enact policies that are harmful for the "disorganized majority." In this context, Krugman argues that the steel industry is clearly pursuing a short-sighted policy that will only harm consumers, and that this also undermines the normative bonds that maintain the international system. He makes the point that interest group politics are the driving force behind the initiation of tariffs. In other words, Krugman hammers home the same points that have already been made: the distorting influence of interest groups, the harmful effects to consumers, the dangers of retaliation, while also stressing, ultimately, the degenerative effect it has on the normative bonds that maintain international institutions.

Almost exactly a year after they were first implemented, the WTO formally rejects the U.S. steel tariff. At the same time in which neoconservatives in the administration are undermining the authority of the UN, Democrats in Congress are attacking the legitimacy of international institutions like the WTO. The existential threat of the international system is shown in *The Washington Post* article, "WTO Rejects Steel Tariffs; U.S. Says Decision Will Be Appealed." The article quotes, Rep. Sander Levin, the brother of Sen. Carl Levin:

[1. *Mr*] "This decision furthers a trend that jeopardizes the credibility of the WTO dispute

settlement system and must serve as a wake-up call for the administration," said Rep. Sander M. Levin (D-Mich.), ranking minority member of the House Ways and Means subcommittee on trade. [2. *Mr*] Max Baucus (D-Mont.), ranking minority member of the Senate Finance Committee, said that "ultimately, these types of decisions will only undermine confidence in the WTO" (Blustein, 3/28/03).

1. The procedural aspects of the dispute settlement system are vast. The Dispute Settlement Understanding (DSU), of the WTO, is the legal text stipulating the three-step process for resolving disputes: 1) Consultations between the aggrieved parties; 2) adjudication by panels; 3) implementation of the ruling. Consultations are mandatory, and must proceed for 60 days before adjudication can begin. The DSU further stipulates that a consultation begins the formal process of dispute resolution by the Dispute Settlement Body (DSB), but informal negotiations and consultations are ongoing among WTO members. The legal basis for initiating consultations is covered under Article XXII and XXIII of the GATT. If consultations fail, the dispute goes before a panel. The request for a panel must concern specific trade measures and practices, and is limited only to discussing and adjudicating on these matters. The panel is selected ad hoc and is composed of three or five members, selected by the Secretariat and voted on by other WTO members. The panel must issue a decision within six months, but may be suspended for 12 months at the request of complaining parties. Once the panel issues a report, it must be adopted by the DSB, and must do so within 20-60 days of receiving the decision, unless the decision is appealed. If the decision is appealed by one of the parties, it begins the appellate process. If there is no appeal, the DSB must adopt the report, unless there is a negative consensus, i.e. all panelists disagree. This is also a departure from the previous positive consensus needed for adoption under the GATT, under the new system, only one member insisting on adoption is needed for the decision to be formally adopted. Once adopted, the "losing member" must adopt the decision, typically withdrawing that sanction that is in conflict with WTO rules within a "reasonable period of time." This is to be determined by members, unless they are not able to do so in which case it is turned over to arbitration. Typically a reasonable period of time is six to fifteen months. If the losing member fails to

implement “temporary measures,” penalties may be used including suspension from the WTO, i.e. trade sanctions and raising tariff barriers, or the losing member must provide compensations to the winning member (WTO 2015).

2. Although Baucus cannot provide a substantive critique of the WTO decision in this case, Anuradha Mittal, of the Oakland Institute, provides a more substantial critique of the WTO while preserving the international and progressive intent on which such organizations are founded:

The time has come to step back from this mania for free trade at any cost, assess the damage, and seek a new start. The goal is not to stop international trade. In appropriate circumstances and under the right conditions, international trade can support local economic development, provide needed goods that cannot be produced domestically, and create jobs. But trade bills and treaties designed to favor the wealthiest and most powerful corporations at the expense of everyone else are wrong. Recognizing the potential of trade, there is a need for a set of principles to serve as the basis for a different kind of trade policy, one under which the benefits of trade might flow primarily to the countries and communities most in need. What they add up to is selective or negotiated integration into the global economy, as opposed to indiscriminate globalization and trade liberalization (Mittal 2001, Web).

A more substantial critique of the power and wealth disparities within the WTO cannot also be grounded by legitimizing short-sighted punitive policies at the expense of structural reform, this is the essence of Mittal’s critique.

From the same article, steel companies and steel workers share the animosity towards the WTO seen by Congressional Democrats: [1. *Mc*] "Steelmakers and the United Steelworkers of America issued a statement calling the decision 'one more example of disturbing pattern of WTO determinations, which are based on neither the facts nor the rules that governments negotiated'" (Blustein, 3/28/03).

1. Kent Jones argues that the hostility of labor movements to the WTO is rooted in the increases of foreign direct investment, leading to more outsourcing, as he says:

In many cases now, large portions of the production process can be moved offshore in response to competitive threats from imports. Without a corporate ally, a labor union’s chances for a successful protectionist campaign along narrow industry lines are significantly reduced. As a

result, some unions have come to target the system itself—the WTO—as part of a broader and more politically viable coalition against import competition (Jones 2004, p. 23)

In the case of the steel industry, the union has a corporate ally, but one bound by the immense fixed capital constituted by large steel mills.

The absence of structural reforms to facilitate the process for adapting to new trade patterns, and resulting animosity from organized labor and industries that compete with imports, reflected by Congressional representation, and projected onto institutions like the WTO, seems to confirm the idea that the more open economies are to international trade, the larger the size of the government needed to provide resources for adjustment due to dislocations from trade (Cameron 1978; Katzenstein 1985; Rodrik 1998). Conversely, in the absence of the political institutions to facilitate adjustment, animosity and resentment is likely to develop among economic sectors that are most severely affected by changes in international trade patterns, feeding a protectionist backlash against international institutions.

After the U.S. appealed the decision, the WTO made its final pronouncement in November, officially allowing sanctions against the U.S., if the tariffs were not removed. The tariffs were officially rescinded the following month -- after President Bush declared "mission accomplished," claiming victory in the objectives set for the tariff, that is to allow industries to "restructure." In reality, most of the largest steel companies aside from U.S. Steel declared bankruptcy or were purchased by firms like ArcelorMittal. The overall narrative remains unchanged, although now this decision reveals the risks alienating interest groups based in other swing states. In *The New York Times* article, "U.S. Tariffs On Steel Are Illegal, World Trade Organization Says," the apparent conflict over appealing to different interest groups is brought to the foreground:

[1. *Mc*] In fact, the administration has handed out hundreds of such exemptions to manufacturers, to minimize harm to companies and workers in the United States. [2. *Mc*] Mr. Bush's aides have conceded that those exemptions are part of a complex balancing act, a process described recently by one senior administration official as an effort to "make sure we're not saving a steel worker in West Virginia while losing an auto worker in Michigan" (Becker,

11/11/03).

1. Ho states that the Bush administration gave out over 700 exemptions, effectively killing any effect the tariffs at stimulating the steel industry even in the short term (Ho 2003, p.834).
2. USTR Zoellick was forced to concede the political motivations of the tariffs, saying at a press conference the “tariffs arose out of a need to build domestic political support to advance the cause of free trade generally” (Ho p.828).

As in the previous article, after the initial WTO ruling, statements from leading Democrats reflected the entrenched animosity felt towards the WTO: [1. *Mc*] "Some members of Congress quickly urged Mr. Bush to ignore the WTO ruling. [2. *Mr*] Rep. Sherrod Brown, a Democrat of Ohio, referred to the WTO as a 'secret' court' and said the president should let the tariffs run their three-year course, now only half complete" (Becker, 11/11/03).

1. Even after the implementation of the Uruguay Round in 1994, the U.S. continues to maintain a high degree of autonomy over trade policy. The U.S. still retains “section 301” authority that allows industries to petition for redress of trade grievances, and gives significant leeway to the Commerce Department and ITC to lead its own investigations of damage done to U.S. industries (Ho, 2003 p. 837). As mentioned, U.S. trade law does not have to prove dumping in order to determine damages done, and uses a controversial method for determining dumping. Ho also argues that since the major cause of the depressed price of steel is attributed to excess capacity, it is not actionable under the WTO. Thus policymakers, are faced with the dilemma of having to circumvent the WTO in order to initiate punitive tariffs.
2. The lack of transparency is suggested by what Keohane refers to as the "democratic deficit" of international institutions and suggests some grounding to Brown's claim, i.e. a greater need for

transparency and accountability (Keohane 1998). However, contrary to Brown's call for defiance, Ho argues: "The United States is, in fact, normalizing global trade policy, albeit in an adversarial and indirect fashion, by urging the EU to submit their claims to the WTO. The Commerce Department's curtailment of the tariffs demonstrates a tacit acknowledgement of the power and risk of alienating the global trading system" (Ho 2003, p.839).

The same day of the *Times* article, *The Washington Post* publishes, "U.S. Loses Appeal On Steel Tariffs; WTO Decision Lets EU Retaliate." Ironically, in this context free-trade Republicans invoke the norms of responsibility in maintaining our commitments to international institutions -- even after the U.S. invasion of Iraq, and in this respect, echo the concerns of Krugman from last year: [1. *Mr*] "'Although I may not agree with every decision at the WTO, it's important that we comply when decisions go against us,' Grassley said" (Blustein and Weisman, 11/11/03).

1. Senator Grassley is also quoted in *Times*. This statement also echoes the earlier critique made by Krugman: that an important aspect of American leadership is to buttress the credibility of international regimes. The irony is that Republicans are forced to urge respect for the WTO, at the same time they urge disrespect for the UN.

Overall, the steel tariff of 2002-03 reveals the limitations of political debate framed by free trade norms leading to punitive policies. The motives for the tariff are derived from systemic imperatives related to interest group and electoral dynamics, that converged to push the avowedly free-trade administration into seeking tariffs, as a way of shoring up electoral support (a strategy that was only partly successful). Calls for a more in-depth response from the government, i.e. assuming healthcare and pensions costs were ruled out. Ultimately, even the strategic motive to increase support in swing states backfired, due to the limited policy options provided by liberal market institutions, leaving only policy options that resulted in a zero-sum game, instead of structural reform.

Arguments used in favor of tariffs can be said to be "systemically distorted communication," based on the lack of any substantial evidence or validity for the arguments put forward. For the Democrats and organized labor, it irritates an already enflamed "credibility gap" between party and union leaders from the general electorate. For both Democrats and Republicans, it creates the spectacle of seeing each party simultaneously urge respect and disrespect for differing international organizations: with Republicans supporting the WTO and undermining the UN; and Democrats supporting the UN and undermining the WTO. This inconsistency further damages the credibility of both parties. Most importantly, the policy favoring tariffs does little to address the structural weaknesses in the American economy which is slowly and painfully adjusting to the rapid changes in the global economy -- its pace dictated by the liberal market regime. The Bush steel tariff may have temporarily preserved a small congressional majority (which collapsed in 2006), and helped Bush's re-election in 2004 (with Ohio becoming the most critical state), but did little to preserve the steel industry.

### **III. Currency Manipulator: 2005-present**

Since 1989, the Treasury Department has issued a semiannual "Report to Congress on International Economic and Exchange Rate Policies" (IEERP), as mandated by the Omnibus Trade and Competitiveness Act of 1988. As part of its report, the Secretary of Treasury, in accordance with Section 3004 of the Act, is to consider "whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustment or gaining unfair competitive advantage in international trade." To be labeled a currency manipulator, under current law, does not result automatically in tariffs or penalties, but opens up multilateral and bilateral negotiations to resolve the issue, something that critics have pointed out is unnecessary, since both the IMF and the Treasury Department are already involved in intense



negotiations with China, in the case of Treasury, especially since the beginning of the Strategic Economic Dialogue in 2006 (Paulson 2008).

The Petersen Institute defines “currency manipulation” as: “when a government buys or sells foreign currency to push the exchange rate of its currency away from its equilibrium value or to prevent exchange rate from moving towards its equilibrium value” (Howard 2014, p.1216). Howard goes on to explain how manipulation occurs, “One way a country can devalue its currency is to print more money, and then use that new money to buy foreign debt and foreign currency. This increases the supply of the new currency in the country printing money, which lowers the value of its currency. In turn, it decreases the supply of the target country’s currency, which increases the value of its currency” (pp.1216-17). The purposes of manipulation are varied, but most commonly it is to increase the flow of exports by lowering the value of currency, thus making these exporters cheaper.

From 1992-94, China was designated a "currency manipulator" by the Bush and Clinton administrations (Keating 2012). In this period of time, China effectively had two exchange rates that distorted the real value of its currency, an overvalued official rate, and a "market" determined rate that was used in international business transactions (and arguably a third "black market" rate). Beginning in 1995, China pegged its currency to the dollar, and resisted attempts to allow its currency to appreciate, thus resulting in an undervalued exchange rate, making Chinese imports cheaper in U.S. markets. Since 2003, the currency issue has become more widely discussed and framed as a major cause of the large deficit the U.S. has with China. However, beginning in 2005, the Chinese government removed its peg to the dollar, instead pegging its currency to a "basket of currencies," and began to allow the yuan (also known as renminbi) to appreciate. The currency issue, however, became even more hotly debated, and continues to be in the present.

Despite pressure put on by lobbying groups like the National Association of Manufacturers, United Steelworkers, and by legislators like Charles Schumer (D-NY) and Lindsey Graham (R-SC), the

Bush and Obama administrations (and Treasury Secretaries Snow, Paulson, Geithner, and Lew) have declined to formally designate China a "currency manipulator" in its reports to Congress. The argument for currency manipulation charged that the undervalued Chinese exchange rate, in effect, was a form of illegal dumping, that subsidized Chinese exports, and that China had resisted all attempts to correct this. The Chinese yuan or renminbi (RMB) appreciated by almost 20 percent in 2005-2008 after China stopped pegging its currency to the U.S. dollar. After 2008, the peg was resumed after the financial crash. In 2010, the peg was removed again and currency appreciated through 2013, appreciating over 36% between 2005 and 2013 (Yi 2013 p.4). Overall the RMB has appreciated by about 10% in the last six months of 2014 (IEERP 2015). In its most recent IEERP report, the Treasury Department indicates that: "China continues to work its way out of a significant undervaluation that led to large internal and external imbalances, and the Report concludes that fundamental factors for RMB appreciation remain intact, highlighting the need for further strengthening over the medium-term" (IEERP 2015). The ultimate goal is for China to transition to an economic model based on strong consumer demand, not foreign exports, and not government spending, one requirement of which is a stronger currency as well as a more transparent financial and banking system. As the Treasury Department states:

China's currency needs to appreciate to bring about the necessary internal rebalancing toward household consumption that is a key goal of the government's reform plans and necessary for sustained, balanced global growth. While China has made real progress, with its real effective exchange rate appreciating meaningfully over the past six months, these factors indicate an RMB exchange rate that remains significantly undervalued (IEERP 2015).

Evidence of manipulation is supported by China's large current account surplus and foreign reserves. This is strong evidence to suggest manipulation, however, evidence would also suggest that China's currency has gradually, yet, consistently appreciated over time at roughly the same pace as its other sign of "excess," its payments surplus has declined. Treasury notes that its reduced current account surplus is partly due to unsustainably high levels of public investment, and high levels of

foreign direct investment (IEERP 2014). Chinas' current account surplus had declined to less than 2 percent of its GDP, from about 10 percent in 2007. In 2014, the current account surplus was \$60 billion higher than the year before, or 2.1% of GDP (IEERP 2015).

A large current account surplus also indicates high levels of foreign reserves, accumulated through foreign exchange purchases (FX). Holding foreign reserves effectively takes that currency out of circulation, and thus raises its value relative to other currencies -- one of the means by which China maintains the value of the dollar against the yuan. China's foreign reserves are over \$4 trillion, the highest in the world, mostly in dollar denominated assets, and make up almost 40 percent of Chinese GDP. However, China has also begun selling off many of its dollar assets, down by \$153 billion in 2014, the consequences of which could have a stimulating effect on the U.S. economy, since selling these assets will likely come to the U.S. in the form of investment (Chovanec 2015).

China has also agreed to submit to the IMF's Special Data Dissemination Standard (SDDS) that monitor's the exchange rate policies of countries (IMF 2014). China has also successfully petitioned to have the renminbi (RMB) included among the currencies that constitute the Special Drawing Rights (SDR) or special reserves maintained by the IMF and loaned to countries with large balance of payments deficits (Hughees 2015; Talley 2015; Pramuk 2015). Before 2009, the value of SDRs was about \$20 billion, however, since the financial crash, SDRs have been needed to increase liquidity in the global economy and are now valued at nearly \$500 billion (Williamson 2009; IMF, 2015). At the same time, other reforms have been enacted to grant emerging market economies more representation in the IMF, now making China the third largest member in terms of voting power (IMF, 2015). Now that the yuan will included among the reserve currencies used by the IMF, China will have to be more transparent about its foreign exchange interventions. Critics argue, that lack of transparency, as well as the limited usability and convertibility of the yuan, due to its high foreign reserves, restricts its importance as a reserve currency (IMF 2011; Chovanec 2015; Hughes 2015).

Supporters of labeling China a currency manipulator have also petitioned the IMF and WTO to take action against China. The IMF does prevent manipulation of exchange rates, and regularly monitors the exchange rate policies of nations, in accordance with Article IV of the Articles of Agreement. Since the collapse of the fixed rate system of Bretton Woods, the surveillance role taken by the IMF has become necessary. Howard lists three key provisions of Article IV that grant authority over currency manipulation:

1. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.
2. A member should intervene in the exchange market if necessary to counter disorderly conditions which may be characterized inter alia by disruptive short-term movements in the exchange value of its currency.
3. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose countries they intervene (Howard 2014, p. 1224).

The IMF does prohibit manipulation of currencies, but lacks an enforcement mechanism, and thus is not adequately suited to playing the punitive role demanded by protectionists. So far, The IMF has never labeled China a currency manipulator, and with China's inclusion among reserve currencies, the IMF instead legitimizes China's exchange rate policy.

The WTO is equipped with the Dispute Settlement System, but it does not directly address currency manipulation. To bring a complaint before the WTO, the offending country must be shown to be in violation of GATT rules, whose intent is to remove barriers to trade, and discriminatory treatment in international commerce. However, there is no precedent to show currency manipulation would fall under this category. The laws of the WTO are vague only referencing it in regards to "frustrating the intent" of the GATT (XV4). Furthermore, Article XV2 specifically refers disputes over foreign exchange to the IMF:

In all cases in which the CONTRACTING PARTIES are called upon to consider or deal with the problems concerning monetary reserves, balance of payments or foreign exchange

arrangements, they shall consult full with the International Monetary Fund. In such consultations, the CONTRACTING PARTIES shall accept all findings of statistical and other facts presented by the Fund relating to foreign exchange, monetary reserves and balances of payments, and shall accept the determination of the Fun as to whether action by a contacting party in exchange matters is in accordance with the Article of Agreement of the International Monetary Fund, or with the terms of a special exchange agreement between that contracting party and the CONTRACTING PARTIES (Howard 2014, pp. 1227-28).

Thus, the legal precedent to act through the WTO is weak. Another route, according to Howard, is to frame the complaint to the WTO of currency manipulation as a de facto subsidy. Subsidies are:

In any case in which it is determined that serious prejudice to the interests of any other contracting party is caused or threatened by any such subsidization, the contracting party granting the subsidy shall, upon request, discuss with the other contracting party or parties concerned, or with the CONTRACTING PARTIES the possibility of limiting the subsidization (p. 1228).

Here, again however, there is no legal precedent that states currency manipulation is a subsidy. One possible solution would be to get the currency manipulating party to agree on the definition as a subsidy and then as stipulated discuss the possibility of limiting the subsidy (p. 1229). In the case of the U.S. and China, this would be a major step towards a new international regime, but the punitive framing of this conflict complicates such an approach.

Unlike other trade conflicts, the outcome here is not a specific policy or event, but the continuous efforts made to label China a currency manipulator, including failed legislation and threats from the Treasury Department. In this case, the punitive framing of the currency dispute prevents its ultimate resolution, which will have to occur through multilateral negotiations led by the IMF and other international institutions. A negotiated settlement between the U.S. and China could lay the foundations for a "Bretton Woods II," or, in other words, a new international monetary regime to replace the system that collapsed in 1971 (Ravenhill 2014, p. 191). Under the previous system, currency manipulation was tolerated to an extent, for example in the relationship between the U.S., Japan, and West Germany.

Since the financial crisis of 2008, the IMF has partially endorsed the idea of a "Bretton Woods II," with

China resuming the role of Germany and Japan. In many regards, this relationship already exists, with the U.S. benefitting from cheap imports and low cost financing, as a result of the dollar reserves held by China, and, of course, China benefits from its record setting economic growth over the last several decades. A compromise between the U.S. and China would probably have to legitimize currency manipulation to a certain extent, while setting strict time tables to allow appreciation to occur, as well as monitoring the financial flows that will result, for example if China sells large shares of its foreign reserves.

Rodrik has analyzed the viability of undervalued currencies for developing countries (Rodrik 2008). In this case, the debate turns to a question of China's developmental status. Maintaining an undervalued currency may be appropriate if the state is still in the developing stages, but if China is more or less in the ranks of developed economies like the U.S. then its undervalued currency is harder to justify. The best evidence of this is to compare the different sectors of the economy as a percentage of GDP. In developed economies like the U.S., the tertiary or service sector accounts for the vast majority of GDP, followed by the secondary-manufacturing sector and a very small primary-agricultural sector. China's manufacturing sector is still almost as large as its service sector, and thus would indicate that China's economy is still "immature," at least compared to the sectoral distribution of GDP in more developed economies (CIA 2015). As countries develop their rate of economic growth slows, but China's rate of growth is still also more than double that of most developed economies, e.g. China's growth rate in 2013 was 7.5 percent, while Japan's was less than 2 (IMF 2015).

Like other trade conflicts, the deep framing of free trade norms in the dispute over currency manipulation shows the same pattern of 1) policy choices limited to punitive legislation, rather than structural reform. 2) A political left-wing that is divided into nationalist and internationalist factions, and unable to generate any support for structural reform policies in the U.S., or spear-heading a multilateral effort to reform the monetary system, instead turning towards punitive legislation. 3) The

construction of an existential threat that is increasingly used by both major parties as a scapegoat for economic problems in the U.S. The construction of this threat is even more formidable since it invokes the very real, deplorable record of China on human rights and economic abuses. Nonetheless, U.S. politicians use this threat to divert attention away from necessary structural economic reforms needed in the U.S.

1) Only punitive policies were advocated as a solution and this created concern over several issues. For one, there is a clear need for some level of cooperation between the U.S. and China on a range of global issues, from North Korean nuclear proliferation, to driving global economic growth, to a “Bretton Woods II” monetary regime, which if institutionalized is the only real long-term solution to China’s undervalued currency. A punitive approach potentially endangers this cooperation. Furthermore, attempts at using multilateral institutions like the IMF and the WTO as punitive instruments have failed, but these institutions could prove useful if the debate was framed in more cooperative terms. Second, the Treasury Department, under both the Bush and Obama administrations, has shown great ambivalence, in labeling China a currency manipulator. This is similar to the ambivalence shown in labeling Japan under Super 301, i.e. sometimes threatening, sometimes conciliatory. Rather than positive structural reform, policy options limited to punitive outcomes leads to continuous stalling on the part of an administration unwilling to risk conflict with China and unable to reframe the debate using less punitive language. Third, a punitive policy from the U.S. is actually to the benefit of the CCP that is able to frame U.S. threats as a means of enflaming nationalist sentiment in the Chinese population (Weatherly 2008; Ross 2011).

2) The Left is also divided over this issue. Leading Democrats in Congress like Charles Schumer campaign aggressively for a punitive approach to China. However, this tends to take focus away from deeper structural weaknesses in the U.S. economy. Democrats have been unsuccessful at generating support for structural reform, and turn towards a punitive approach as a substitute, where

they have also been unsuccessful. Furthermore, among Democrats and labor unions there has been an increasing division into nationalist and internationalist factions (Cox 1981; Frieden 1988; Frieden and Rogowski 1996). Economic nationalists in the U.S. support a tough unilateral stance against China's currency manipulation. They have also petitioned the WTO to rule on China's currency, however the WTO is not authorized to do so and must refer monetary issues to the IMF. The IMF, however, lacks the enforcement mechanisms of the WTO, and the IMF, like the Treasury Department, has not labeled China a currency manipulator, (Howard 2014). Despite this, Congressional Democrats still put forward a punitive policy as the best solution to China's undervalued currency.

3) Finally, invoking the existential threat of China is easy to do given China's record on human rights and many of its economic practices (CECC 2014). Recently, Democrats and Republicans, perhaps desperate to define a populist position, have both engaged in strong rhetoric against China and blamed China as a major cause of the weak American economy. However, again, this takes the focus away from much needed, much overdue structural economic reforms in the U.S., and also conceals the real causes of structural weakness in the U.S. that predate the rise of China as an economic power. Finally, a punitive trade policy towards China will not hurt the CCP, but will hurt the people living under the CCP. Likewise, a punitive policy will do nothing to help American workers.

The resistance of the CCP stems, most likely, from three major reasons. One, the failure of the Russian "shock therapy" approach of the early 1990s fosters resistance to the Washington Consensus. Shock therapy, a position endorsed by the U.S. and international institutions requires the fastest pace of adjustment and integration to market reforms (Sachs 2012). On the other hand, China constitutes the other model of post-communist adjustment, a gradual, piecemeal reform. The failure of Russia's shock therapy adjustment, rather than leading to a prosperous liberal democracy, has led to the Putin "kleptocracy" is proof enough of the failure of shock therapy. Second, the Plaza Accord in 1985 that negotiated the appreciation of the yen against a very strong dollar is believed to help cause the "lost



decade" in Japan beginning in the 1990s. The overvaluation of the dollar in the 1980s can be attributed to speculative financial flows resulting from high interest rates and specifically from a floating exchange rate. Thus a floating exchange can introduce distortions that defy market signals as a result of financial speculation, however negative implications of this are usually concealed by U.S. policymakers that argue a floating rate is most receptive to market signals. In the case of Japan the burden of financial adjustment fell on Japan, not the U.S., and the appreciation of the Japanese currency created the conditions for the asset bubbles which devastated the Japanese economy in the 1990s. The Plaza Accord was actually a gesture towards establishing a new managed financial system, but quickly fell apart due to disagreements between the U.S., Japan, and West Germany (Ravenill, 2014). The third reason would stem from the Asian financial crisis of 1997-98, where undeveloped banking and financial institutions, combined with rapid liberalization of the exchange rate, were seen as the immediate cause of the crisis, and combined with the perceived lack of concern from institutions like the IMF, resulted in many southeast states like Malaysia abandoning the Washington Consensus and resuming some financial controls (IMF 2006). Another consequence was the revival of communist parties in Southeast Asia, now re-branded as social-democratic parties. China has also argued that it should not liberalize its exchange rate further until its banking and finance institutions are more developed. Since the financial crash of 2008, these views have gained even more legitimacy, regarding capital controls and "managed floats" or pegged exchange rates. All three of these examples cast doubt on the policy proposals of the "Washington Consensus," yet these failures are hardly addressed in U.S. discourse, and it is simply assumed that a floating exchange rate is the most efficient means of organizing an international regime for exchange rates (Stockman 1999).

Interest in the currency issue would intensify when the Treasury Department would issue its semiannual IEERP report, usually in the spring and at the end of the year. The stance taken by the Treasury Department in both Republican and Democratic administrations has been to avoid designating

China a currency manipulator, largely to avoid a more intense economic confrontation with China, and as suggested to facilitate Chinese support for strategic security issues. Besides this, the empirical evidence to justify taking a punitive stance towards China is thin. In the case of steel, the critical piece of evidence to which pro-tariff advocates seemed unable to answer was the falling level of imports since the late 1990s financial crash. The currency issue also seems to pivot around one critical piece of evidence, the actual appreciation of the Chinese yuan compared to the dollar. Like the case of steel, advocates of a tougher policy on China seem to be unable to answer this simple empirical fact, in this case, that Chinese currency was slowly but steadily appreciating since 2005, only reversing its direction in the aftermath of the financial crisis of 2008, but has continued to appreciate since then. Furthermore, most of the objectives that U.S. policymakers set for China has been achieved, e.g. reducing its balance of payments and trade surplus, as well as the real appreciation of its currency, objectives that were achieved without taking a punitive policy -- albeit at a slower pace than demanded by the U.S.

The administration's ideological commitment to the Washington Consensus resulted in ambivalence and frustration at the inability to push China towards a faster pace of reform. With the currency issue, the conflict did not stem from the goals of moving to a more flexible exchange rate China, but the pace in which it would occur. From the "Report to Congress on International Economic and Exchange Rate Policies," from Treasury in May 2005:

While the benefits of China's ten-year-long pegged currency regime have at times served well the Chinese economy, this is no longer the case for the large, increasingly market-based economy that China has become. China's fixed exchange rate is now an impediment to the transmission of price signals and international adjustment, and imposes a risk to its economy, China's trading partners, and global economic growth. China has clearly stated that it intends to move to a market-based flexible exchange rate, and has undertaken necessary and appropriate preparations. It is now widely accepted that China is now ready and should move without delay in a manner and magnitude that is sufficiently reflective of underlying market conditions (IEERP 2005).

However, over the next ten years Treasury would repeatedly condemn Chinese currency

practices, without ever labeling China a manipulator. In 2007, little has changed in the debate over Chinese currency, from Treasury's report to Congress in 2007:

The Department of Treasury concluded that, although the Chinese currency is undervalued, China did not meet the technical requirements for designation under the terms of Section 3004 of the Act during the period under consideration. Treasury was unable to determine that China's exchange rate policy was carried out for the purpose of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade (IEERP 2007).

A major reason for the ambivalence of the administration is the importance of China to the global economy and of course to the U.S. economy as well, according to Treasury' report in July 2010 (the only report it issued for the year):

China was a significant source of economic support in 2009, generating a 13 percent increase in domestic demand that contributed 1.6 percentage points to global growth at a time when total world demand decline 0.6 percent. China's stimulus contributed to the expansion of U.S. exports to China by 15 percent in the second half of 2009, while U.S. exports to the rest of the world decreased by 13 percent (IEERP 2010).

However, since free trade norms delegitimize structural policies that call for active government intervention, the only response of the administration is to threaten punishment. Actually carrying through on such a punitive policy could potentially have disastrous effects for the global economy, and that is why the administration shows such ambivalence to taking any kind of stance against China. The policy stalemate revealed in this conflict could be solved by a move towards a new regime for exchange rates and international finance, what advocates have referred to as "Bretton Woods II." Such a move towards institutionalizing a new multilateral regime can only be complicated by punitive policies.

Around the same time in which the renewed protectionist pressure for steel tariffs in the U.S. is being defeated in the international arena, the movement towards the issue of currency manipulation is already taking shape. An article from *The Journal of Commerce*, "A Growing Source of Discontent;

Movement to Force China to Float Its Currency Gains Momentum in the U.S.," reveals the strategic mentality which limits the administration from taking a harsher stance, i.e. the national security implications of the U.S.-China relationship over nuclear proliferation, especially in North Korea, as well as the war on terror: [1. *Mc*] They want China's help with North Korea,' said Jay Bryson, global economist for financial service provider Wachovia Corp. [2. *Mc*] At the same time, he predicted, 'China will ultimately revalue its currency. This isn't an issue for 2003, but for 2004 or 2005.'"

1. China is North Korea's most important ally and "main source of food, arms and energy" (CFR, 2014). China has been a major player in the Six Party Talks with North Korea, along with the U.S., South Korea, Japan, and Russia. This culminated in a 2005 agreement where North Korea would stop its nuclear program and rejoin the Nuclear Nonproliferation Treaty (NPT). However in 2006, North Korea conducted its first nuclear test, followed by its third and most recent test in 2012, drawing condemnation from Six Party Talk members, including China, and leading to tough UN sanctions. Since 2013, China has taken on more of an active role at reviving the Six Party Talks, although by some accounts North Korea seems determined to become a nuclear state (CFR, 2014).

2. China's currency has appreciated since 2005, even as it has become more of a controversial issue among Democrats. At the same time, the issue of North Korea's nuclear program is tenuous.

The necessity for cooperation undermines the punitive framing of the currency issue either in terms of nuclear non-proliferation, or in terms of the global economy. In *The New York Times* article, "China Jittery About Obama Amid Signs of Harder Line," the need for cooperation between the two powers in recovering from the global economic crash is emphasized by the *Times* but also in reference to official CCP newspaper, *The People's Daily*: [1. *Mc*] "Rather than dwell on or analyze the reference to China's currency, the Chinese official newspaper, *The People's Daily*, quoted Mr. Geithner as saying that the currency manipulation issue would take a back seat to working with China to alleviate the

global financial crisis.” (Landler, 1/25/09).

1. Geithner argues at the Commonwealth Club, that China played a great role in economic recovery, noting that the problems in Europe and Japan slowed world economic growth:

But parts of the world, and particularly emerging markets, have been a source of strength for the United States since the crisis. China has been a significant part of this growth. Overall, American exports have increased about 34 percent since 2009. American workers and American companies are becoming more competitive, productivity is up, supported by rapid increases in private investment, financed by a recovering financial system (Treasury, 2012).

The legitimacy of an undervalued currency is more permissible for emerging market states. The perception of China's developmental status is a crucial mediating factor in this debate. Is China a developed economy, or is it still a developing economy? The Chinese government considers itself a developing economy, but many in the U.S. argue that China is a fully developed economy and should have to play by the same rules as other developed countries, from the *New York Times* article, "Obama and Republicans Can Agree on Criticizing China's Trade Practices": [1. *Mc*] "At an economic summit meeting in Hawaii last week, Mr. Obama said that China was now a 'grown-up' economy, and that its leaders needed to start behaving that way. [2. *Mc*] He singled out Beijing's artificially depressed currency, which undercuts exports from the United States. [3. *Mr*] The American people, he declared, 'understandably, feel that enough is enough'" (Landler, 11/22/11).

1. This claim does not seem to rest on solid empirical proof. The only evidence that supports China is "grown up" is its large GDP. The composition of China's economic sectors does not seem to resemble, the structure of developed economies that are predominantly service economies. China's economic structure is almost still predominantly manufacturing, much more so than other developed economies. Only in 2013 did the service, or tertiary, sector surpass the manufacturing sector as a share of China's GDP, 46 percent to 44 percent respectively. The U.S. service sector is almost 80 percent of GDP and

the manufacturing sector is less than 20 percent. Furthermore, although China's GDP is quite high, its per capita GDP puts it a much lower level than other developed economies, i.e. China is still predominantly a poor country (CIA, 2015)

2. For underdeveloped economies, as Rodrik has pointed out, an undervalued exchange rate is a normal policy tool used by developing countries (Rodrik, 2008).

3. American citizens are under tremendous pressure, dealing with stagnant wages and rapidly rising costs of living. However, the source of these problems cannot be attributed to China, and so the sentiment "enough is enough" seems misdirected.

Ambivalence on the part of the administration translates into a strategic position where the administration will repeatedly threaten the CCP with the "currency manipulator" label, yet not formally declare China a manipulator, a trend that has occurred under several Treasury Secretaries and different administrations. This article from *The Washington Post* reveals this pattern, "U.S. Warns China on Currency Policy; Treasury Declines to Declare Manipulation, But Patience is Thin," the article published one day after Treasury releases its report: [1. *Mc*] "Failure on the part of China to move to a more flexible regime will almost certainly mean that China will meet the technical requirements 'for being declared a manipulator in the future,' Treasury Secretary John W. Snow said at a news conference yesterday" (Hilzenrath, 5/18/05).

1. The Treasury Department makes the same claims in the present, despite the real appreciation that has occurred. Gang Yi claims that the renminbi has appreciated by 36% in terms of its real effective exchange rate (REER) from the beginning of reform in 2005 to 2013 (Yi 2013). *The Economist* claims that China's currency may have appreciated by as much as 50% since 2003, and argues the CCP's "tolerance" for this is its long-term reform goals of easing capital controls, something that Premier Li Keqiang has recently announced, as the article states, "if the yuan were much below its market value,

relaxing capital controls could invite a destabilizing influx of foreign money” (*Economist* 2013).

In another article the following year published by *The Washington Post*, "Trade: U.S. To Issue Report..." the debate over China's currency continues to intensify around the time Treasury is set to issue another report. Again, the Treasury is not willing to label China a currency manipulator, as this statement from Treasury spokesman Tony Fratto indicates: [1. *Mc*] "When you look at what China is doing in executing their commitment on putting in place a foreign-exchange regime that has greater flexibility and an economy that is more flexible, you'll see some evidence that they're doing that,' Treasury spokesman Tony Fratto said" (*Financial*, 5/9/06).

1. Yi argues that although China’s move to a flexible regime is “irreversible,” he does not rule out the possibility of intervention:

Nevertheless, a floating exchange rate regime does not rule out foreign exchange market intervention. In some circumstances, intervention is still well justified. For example, when the exchange rate exceeds the predetermined band, or when the capital account experiences large imbalances and there are excessive trades in the foreign exchange market, or the financial market falls into crisis-scale turmoil, market intervention can be restarted to the extent that the intervention is in a two-way manner, with the intent of preventing or correcting a large, short-term fluctuation of the exchange rate (Yi p.5).

The “currency band” is a compromise between a fixed rate and a floating rate. The exchange rate floats but within a range, representing a price floor and ceiling (Williamson 1998; IMF 2004; Goldstein and Lardy 2008; Cline 2012). The institutionalization of this approach could form the backbone of a new Bretton Woods system, but would require the U.S. not to resort to a punitive framing of undervalued currencies.

The pattern of condemnation, then equivocation, continues after the Obama administration comes into office in 2009. At first, it appears as if the new administration will take a hard line regarding China, one more in line with Congress, this is shown in *The New York Times* article, "China Jittery About Obama Amid Signs of Harder Line," by Mark Landler, 1/25/09: [1. *Mc*] "Whether it was a shot across the bow or a simple restatement of his boss' views, Timothy F. Geithner's assertion that

China 'manipulates' its currency has complicated a crucial front in President Obama's efforts to improve America's relations with the world."

1. The most serious claims for manipulation argued China's currency was undervalued by as much as 40%. The Petersen Institute calculated that based on China's current account surplus, at that time 10% of GDP (Morrison and Labonte 2010; Krugman 2010). China's current account surplus is now about 2 percent of GDP. Other estimates had the yuan by undervalued by about 5% against the dollar (Reisen 2010).

Secretary Geithner would very soon back away from the manipulator label, and like previous Treasury Secretaries would pursue a more conciliatory route with China -- all the while expressing its frustration with China's lack of compliance with the Washington Consensus.

By the end of the article, Geithner's claim has softened: [1. *Mr*] "The question is how and when to broach the subject in order to do more good than harm," he said."

1. Geithner says at the School of Advanced International Studies, "our economic strengths are largely complementary." He goes on to say:

Now, over the last few decades, China has emerged as a major economic force. That growth was unleashed by China's economic reforms, a growing labor force, and one of history's greatest economic migrations from farms to factories. But China's growth was also made possible by the access China enjoyed to the markets, the investments, and the technology of the United States and the other major economies. The open, multilateral system of trade and investment, with its balance of rules and responsibilities, was built with the leadership of the United States decades before China opened up to the world. The opportunities created by the system were fundamental to China's economic ascent, and they remain vital to China's ability to grow. China needs the United States, but the United States also benefits very substantially from our rapidly expanding economic relationship with China (Treasury 2011).

Another consequence of the punitive framing of China's undervalued currencies is that it allows the CCP to cultivate intense nationalistic feelings directed against the U.S. The irony is that threats



from the U.S. may be hollow, but this does not stop the CCP from using it to benefit their own nationalist mobilization efforts. The rhetoric from Chinese leaders have already expressed frustration and defiance with perceived attempts at undermining China's sovereignty by dictating economic policy, it provokes fierce resistance, as evidenced in this article from *The Washington Post*, "Chinese Official: U.S. Would Lose Trade War; Commerce Chief Warns Against Punitive Tariffs, Pressure on the Yuan," that quotes China's Commerce Minister Chen Deming: [1. *Mr*] "'You're not going to get 1.3 billion Chinese to change by insulting them,' he said" (Pomfret, 3/22/10).

1. This rise of nationalism in China has been encouraged by the CCP in order to compensate for the decline in importance of "Mao Zedong Thought." In "post-Mao China," Weatherly argues that nationalism has again become a potent force within China, something the authorities struggle to control (Weatherly 2008). The punitive framing of the currency issue allows the CCP to frame the U.S. as a bully in order to enflame anti-American sentiment in China (Friedman 2003).

This article from *The New York Times*, "Chinese Leaders Divided On Whether to Let Yuan Rise," analyzes the conflict within the CCP administration. On the one hand, the People's Bank of China (PBOC) has moved towards greater flexibility by declaring the policy of keeping the yuan at a constant exchange rate to the dollar a "special" response to the economic crisis. On the other hand, the Commerce Ministry frames this as submission to Western powers: [1. *Mc*] "Chinese officials, particularly at the Commerce Ministry, have fought back in the last two weeks, stoking nationalism and anti-American sentiment by loudly declaring that China would not be told what to do by the United States" (Bradsher and Chan, 3/26/10).

1. This kind of nationalistic attitude was captured in the books *China Can Say No* (modeled on the essay *The Japan That Can Say No*, not to be confused with the anti-Japanese polemic by the same author *China Can Still Say No*) and *Unhappy China*. Despite the obvious contradictions of the

arguments, the books became bestsellers in China (Ishihara and Morita 1989; Gries 1997; Ramzy 2009). Among the arguments, Chinese intellectuals embraced Western values too strongly in the 1980s and China will gain revenge against the U.S. in 20 or 30 years (Qiang et al 1996a, 1996b, 2009; Gries 1997; Ramzy 2009).

The government promotes displays of “online nationalism,” and the article points out how easily American threats can be used to fuel Chinese nationalistic rhetoric: [1. *Mc*] “These comments have raised a surge of anti-American sentiment in Internet chat rooms and prompted daily headlines on the front pages of Chinese newspapers that China must not ‘back down’” (Bradsher and Chan, 3/26/10).

1. In 2010, in the midst of a controversy with Google, the CCP released its first White Paper on the Internet. It claims that over 384 million people in China have internet access at the end of 2009, roughly 30% of the population (Breslin and Shen, 2010). One of China’s most popular message boards ‘qiangguo’ was set up specifically to air anti-U.S. sentiments. Breslin and Shen, although arguing that online nationalism has the potential to create a backlash against leadership, argue, for the most part, it reinforces control:

By and large, though, online nationalism is regime reinforcing. In particular, it helps to cement the idea that the state, the leaders and the people are one and the same thing; and that they are subject to unfair criticism and attacks from the rest of the world that simply does not understand China. So if foreign demonstrators express support for the Dalai Lama, this is taken as an attack not just on the Chinese state, or of the policy of China’s leaders, but as an attack on China as a whole including the Chinese people. Such criticism are often described as ‘hurting the feelings of the Chinese people’ (shanghai zhongguo renmin ganqing) – something that one Chinese blogger calculates happened 115 times between 1946 and 2006 (Breslin and Shen p. 7).

The framing of China’s undervalued currency as a punitive conflict contributes significantly to enflaming tensions between the U.S. and China. It forces the administration to take an ambivalent stance, sometimes threatening, sometimes conciliatory that only serves to paralyze any kind of policy outcome for adjusting to U.S.-China interdependence. The punitive act of labeling China a currency

manipulator also serves to reinforce Chinese nationalism encouraged and promoted by the CCP.

Protectionist sentiment in Congress is fueled by the ambivalence shown by the Treasury Department. Treasury cannot label China a manipulator, to do so could open the way to strong punitive legislation, but to do nothing, fuels protectionist sentiment in Congress. In *The Washington Post* article, “U.S. Avoids Calling China a Currency Manipulator; Treasury Still Says Policy is ‘Troubling,’” the ramifications of labeling China a manipulator are discussed, as well as the resistance of the administration to punitive legislation:

[1. *Mr*] But accusing China of manipulation would be a diplomatic slap in the face, and Treasury officials made clear yesterday that they would view it as a signal to Congress that their own efforts have failed and that the time has come for legislative remedies. [2. *Mr*] Administration officials strongly oppose the Schumer-Graham bill which they regard as a violation of international trade rules, but have indicated a willingness to consider other legislation (Blustein, 11/29/05).

1. Again, the punitive framing of this issue causes tension in the sensitive diplomatic relationship between the U.S. and China. The following year, the Treasury Department under Henry Paulson would launch the Strategic Economic Dialogue in part to diffuse the protectionist tensions coming from Congress (Paulson 2008).

2. Schumer and Graham later withdrew the legislation, at the urging of the administration, in part because of the new Strategic Economic Dialogue. The proposed bill (S.295) would add tariffs of 27.5% on “currency manipulators,” and passed by a 2/3 majority in the Senate before it was withdrawn. Scott argues that punitive legislation like this is legal under XXI of the GATT that permits, “a member of the WTO to take any action which it considers necessary for the protection of its essential security interests” (Scott 2010, p. 4). Sen. Schumer argued, “Before this bill, nobody cared about China currency. Now it is front and center” thus essentially establishing a punitive framing of this conflict (HKTDC 2006).

In *The Washington Post* article from earlier that year, “U.S. Warns China on Currency Policy;

Treasury Declines to Declare Manipulation, But Patience is Thin,” it quotes Senators Schumer and Graham who are the leading voices in the Senate to label China a currency manipulator:

[1. *Mr*] “It is clear from this report that something is wrong in our trade relationship with China, but the Treasury Department seems to be unwilling to say that in plain English,” Sen. Charles E. Schumer (D-N.Y.) said in a statement. [2. *Mc*] Schumer’s office said he and Sen. Lindsey O. Graham (R-S.C.) would introduce a bill with a new definition of currency manipulation and a requirement that the Treasury Department give reasons for its determinations (Hilzenrath, 5/18/05).

1. Schumer’s comment speaks to the ambivalence shown by the administration, but also frames the conflict as something calling for a punitive response. Sen. Baucus, the ranking member of the Finance Committee, and also a vocal opponent of Japanese trade practices and Sen. Cardin, the ranking member on the trade subcommittee, made similar comments, along with many other prominent Democrats.

2. There were several attempts to pass tougher legislation (S.295; S.3134) against China’s currency practices, but to date none has been signed into law by. The most recent is the Currency Exchange Rate Oversight Reform Act of 2011, sponsored by Senator Sherrod Brown (Keating 2012). This would change the law so that countries identified as currency manipulators would be subject to tariffs, instead of the current law that only opens negotiations to resolve the claim. The law passed with almost a 2/3 majority in the Senate, but was blocked in the Republican controlled House. In contrast to Sen. Schumers’ comment, Treasury has provided reasons for its determinations, namely that China’s currency has appreciated. The difficulty for Democrats and the Treasury Department is specifying a specific rate at which the currency should appreciate. So far, no specific goal has been formulated.

Statements from Sen. Schumer suggest that the administration approves of the tough stance that Congress takes toward China, in another article from *The New York Times* in May the following year, “U.S Won’t Press China over Yuan,”: [1. *Mc*] “‘Frankly the administration likes us playing our role so it can play the other role,’ Mr. Schumer said, adding that the administration seemed more interested in working with China on other issues and not letting the currency and trade issues undermine the chances

of cooperation on matters including Iran and North Korea” (Weisman, 5/11/06).

1. Again, the necessity of cooperation tends to diffuse the credibility of threats, however, the persistence of this punitive framing of the conflict can potentially endanger cooperation. The security implications of maintaining peace with China and ensuring cooperation over geo-strategic affairs trump domestic economic considerations, according to Senator Schumer. However, the consideration the Bush administration gave to domestic concerns during the steel tariff suggests the opposite.

The punitive framing of China’s undervalued currency tends to take the focus away from structural weaknesses in the U.S. economy. What is often overlooked is the precarious position workers are placed in, having to contend with liberal market institutions that do not adjust well to changes in trade patterns, leading to higher unemployment, low wages and less opportunities for specialized job training. With little alternatives for social adjustment the pressure for protectionist policy increases. These sentiments were at times expressed like in the following *New York Times* editorial, "The Yuan Diversion": [1. Mr] “One reason for the fuss is that it's easier to exploit the yuan than to remedy the loss of American manufacturing jobs.” (Editorial, 5/21/05).

1. Robert Scott, of EPI, claims that China’s undervalued currency has cost 2.4 million American manufacturing jobs between 2001-08 and lowered wages for a 100 million more (Scott 2010). The massively large trade deficit with China may be an indication of structural economic weakness in the U.S., but these weaknesses pre-date the rise of China. Losses of jobs in manufacturing and stagnant wages have been long-term structural patterns in the U.S. since the 1970s. Had there been more of an effort to mobilize support for structural reform policies, rather than punitive policies, perhaps by now some of the weaknesses could have been strengthened and the obvious indicators of this weakness would not be so obvious. However, since free trade ideology frames every trade issue attempts at structural reform are delegitimized, leaving punitive policies as the only substitute.

The alternative to the punitive framing of China's currency stresses the deeper structural problems in the U.S. However, even here, the limits of free trade norms narrow the range of policy options to cutting the deficit, more radical ideas are not legitimized.

The high budget deficits of the U.S as a primary cause of the large trade deficit are emphasized in this article and others like this editorial from *The Washington Post*, "Salesman in Chief; President Obama Talks Up Exports. Is That Enough?" The editorial stresses that China's undervalued currency is a cause of the trade deficit, but since the President cannot force China to revalue its currency, the President should pursue other options: [1. *Mr*] "Correcting China's currency policy, alas, is probably a long-term effort that the United States can most effectively wage in concert with other trading nations that are also damaged by Chinese mercantilism. [2. *Mc*] In the meantime, the best thing that that United States could do for its international competitiveness would be to cut its own immense long-term fiscal deficits" (Editorial, 3/14/10).

1. By definition, exchanges rates are an international issue, and are best addressed by international institutions like the IMF. Framing the conflict in this way does not require a punitive stance as a way of legitimating this policy.

2. The Obama administration reduced the federal deficit to \$483 billion in 2014, the lowest since 2007 and far below the staggering \$1.4 trillion in 2009 (Montgomery 2014). However, trade tensions between China still remain high, and the ideological positions of the administration have hardly changed.

Congress has also pressured the administration to petition the WTO to rule on China's currency. This is a strange decision in that the WTO is not properly empowered to deal with issues like this. In this article from *The Journal of Commerce*, "WTO chief warns Against U.S. Protectionism, Fears Over China," 2/15/06, the discontent over China's limited attempts at revaluation are also revealed here:

[1. *Mc*] China's government on July 21 revalued the yuan 2.1 percent and pegged it to a basket of currencies, ending a decade-old peg to the dollar. [2. *Mc*] The revaluation was an extremely limited step,' the U.S.-China Economic and Security Review Commission said in a Nov. 4 report ordered by Congress. [3. *Mr*] Congress should push the Bush administration to file a WTO complaint unless China revalues its currency by at least 25 percent, the panel said.

1. Instead of being exclusively pegged to the dollar, the yuan is pegged to the yen, euro, won. The rationale for a basket of currencies is explained by *Bloomberg News*, citing Adam Cole of RBC Capital Markets: “‘For instance if we went through a prolonged period of dollar downward pressure then the yuan would feel all the pressure of that, but if it was using basket, then the move would be offset by other currencies doing better,’ said Cole. It’s an easier way to manage a currency target’” (Kuramitsu and Lee 2005).

2. The U.S.-China Economic and Security Review Commission was created by Congress in 2000 to monitor trade with China. The Commission whose members are appointed by Congress tends to concur with Congress' perception of China's exchange rate adjustment. Another body is the Congressional-Executive Commission on China, also formed in 2000, to monitor human rights abuses and the implementation of the rule of law. Sen. Sherrod Brown, who authored the Currency Reform Act and is also Co-Chair on the Congressional-Executive Commission on China, makes a similar point in commenting on the 2012 report: “The report shows China doing nothing to improve compliance with its WTO obligations and commercial rule of law, whether it be stopping currency manipulation or dismantling quotas, subsidies, and other unfair trading practices that favor Chinese enterprises at the expense of our workers and businesses” (CECC 2012).

3. Bergsten, who supports the claims of 25 to 40 percent manipulation, argues that the WTO is ill equipped to handle the matter. Bergsten recommends “countervailing currency intervention” that would allow the Treasury to make foreign exchange purchases to offset the purchases China makes to hold down its currency. This policy could potentially lead to “currency wars.”

With the WTO route closed, then the focus turns to the IMF, from "Snow Says U.S. Must Back

## Off on China's Currency; Officials Hope to Avert a Backlash":

[1. *Mc*] Treasury officials have called on the International Monetary Fund to crack down on countries that are manipulating their currencies for competitive gain. [2. *Mr*] The IMF yesterday issued a report reiterating its exhortation for China to make the yuan more flexible, but its managing director, Rodrigo de Raton, has openly rebuffed the U.S. suggestion that the fund, as a multilateral institution, is better suited to confronting Beijing (Blustein, 11/18/05).

1. The IMF, since 1978, regularly monitors the exchange rate policies of its members. China joined the IMF in 1980 when it was given the spot previously held by the Republic of China (Taiwan).
2. Since the adoption of Article IV in 1978, even though currency manipulation is formally banned, the IMF has never declared any country is violating this ban. Furthermore, even if it had, there is no clear enforcement mechanism and no mechanism for members to bring complaints against each other. Even if the Treasury does label China a currency manipulator, this opens the way to bilateral negotiations that are likely not to be effective, or refers the matter to the IMF which is also ineffective. A more radical proposal, according to Howard, concerns the IMF and WTO working in cooperation: a complaint is brought before the Dispute Settlement Body over currency, this is referred to the IMF who determines if a violation exists and informs the DSB, now be empowered to impose countervailing duties, until the violation is removed. However, again no legal precedent exists for this and would theoretically require an alternation in the decision-making procedures of both organizations (Howard 2014).

In this editorial from *The New York Times*, "China and the IMF," suggests growing international pressure against China, but also the lack of power the IMF has over its members. China has recently opened itself up to more IMF scrutiny, however as the editorial says: [1. *Mc*] "The new openness means China is more comfortable that it can get away with the manipulation. [2. *Mc*] It agreed to the review only after the fund softened its standards determining whether countries are manipulating their exchange rate to boost exports, in violation of I.M.F rules, and to give countries like China 'the benefit of any reasonable doubt' when evaluating their policies" (Editorial, 8/9/10).



1. The IMF has never labeled a member as a currency manipulator, despite that fact that many countries do, thus suggesting a discrepancy between the U.S. and international norms.
2. The standards that the IMF uses to determine manipulation are weak and unenforceable. However, by having China submit to the review process, it can better monitor China's progress in this area. China has moved closer to the IMF and has begun reform. Recently, China was lobbying for the yuan to be included in the basket of currencies that make up the Special Drawing Rights (SDR) of the IMF, a request that has been granted by the IMF, and acknowledges the yuan's status as a major reserve currency. China's inclusion into SDR is believed to accelerate its capital account liberalization, drastically opening up its financial markets to the rest of the world, and in many ways, is just as important as China's entry to the WTO in 2001. Yet, the yuan's status is still limited by the relative scarcity of the yuan in foreign markets (IMF 2011; Chovanec 2015; Hughes 2015).

The consensus-forming processes of institutions like the IMF diffuse the punitive framing that is common in American public discourse over the issue of currency valuation. Neither institution is suited well to the task of trying to force the CCP to appreciate the currency faster than they are willing to. A negotiated settlement is possible within the framework of the IMF, but the framing of this settlement would have to dispense with the punitive framing of a currency manipulator, and in a sense legitimize the idea of undervaluing the currency. This is not as controversial as it may suggest since the practice of undervaluing currencies is widespread, especially among low-income countries (Rodrik 2008). Furthermore, since China is making moves to further integrate itself within the IMF, these moves should be encouraged as it will facilitate the process of reforming China's exchange rate policies. However, the existential threat of China, especially over this issue, shows no signs of losing intensity in the U.S. and thus the push for punitive policies is likely to continue.

Tensions between the U.S. and China over this issue continue to increase, as shown in this *New*

*York Times* article, "Obama and Republicans Can Agree on Criticizing China's Trade Practices": [1. *Mc*] "Given the bleak economic backdrop, China's emergence as an election issue is no big surprise. [2. *Mc*] But it is an unusual case in which domestic politics are playing to Mr. Obama's diplomatic advantage, allowing him to project to China the picture of a country united in its resolve" (Landler, 11/22/11).

1. The importance of political business cycles has been discussed, the convergence of an election year, with economic conditions that are still adverse to many ordinary Americans, means that the temptation to scapegoat other nations will increase.
2. The bipartisan tendency for China-bashing has the unintended consequence of portraying unity in a country that has been torn apart by severe partisanship over the last several years. Projecting unity makes threats made by the administration seem more credible. At the same time, this also serves the purposes of the CCP who are also able to use these threats to generate support for their own nationalistic campaigns.

There is now more bipartisanship over punitive trade policy. In the last Presidential election, candidate Mitt Romney made "China-bashing" a focus of his campaign rhetoric. In this regard, his stance is similar to the Democratic stance Republicans in Congress like Sen. Graham respond to the same interest group pressures as Democrats, however, up until 2012 it was unusual for a Republican Presidential candidate to take such a confrontational tone, from the same article: [1. *Mr*] "For Mr. Romney, a wealthy business executive with free-market credentials, criticizing China is a rare chance to play the populist and appeal to working-class voters, many of whom do blame China and other Asian nations for sucking away jobs with cheaper labor and production costs."

1. During the election, Romney's tenure at Bain capital, a private equity firm, became a major campaign issue. Romney oversaw several leveraged buyouts of companies, ultimately, leading to the

closure of several American manufacturing firms like GST Steel. Many politicians before have used such strong rhetoric only to back off from translating this rhetoric into policy, and in all likelihood, a Romney Presidency would most likely do the same. Instead, this seems like a fairly transparent strategy of trying to entice working-class voters who the Romney campaign has a difficult time of reaching out to.

Another article from *The New York Times* makes similar points when analyzing the Romney campaign in this article, "The Electoral Math of Romney's Stance on China," by John Harwood, 3/24/12: [1. *Mr*] "Republican and Democratic strategists alike say that confronting China can play effectively to an anxious public's sense of economic grievance."

1. This speaks to the idea that it is easier to find scapegoats under tough economic times, making it easier to "demonize" China (Lubman 2004).

The growing bi-partisan nature of China-bashing reflects a strategy to win over voters from both low income and high-income workers, from *The New York Times*, "The Electoral Math of Romney's Stance on China":

[1. *Mr*] "With blue-collar voters specifically, there's a perception that we have an economic adversary in China that doesn't play by the rules," said Geoff Garin, a Democratic pollster. [2. *Mr*] And the concern "cuts across socioeconomic lines," said Tony Fabrizio, a Republican pollster, who said higher-income voters fear that China's ownership of United States government debt threatens American security (Harwood, 3/24/12).

1. Public opinion shows that the American public is aware of the rise of China, and is nervous about China's rise, but does not support punitive policies against China (Page and Xi 2010).

2. The argument that China holds power over the U.S. because of its ownership of U.S. debt is highly exaggerated, according to Krugman in an editorial for the *Times* in 2010, "Taking on China," who suggests China is just as dependent on the U.S. If China were to unload dollars it would weaken the dollar, and thus frustrate China's own attempts at undervaluing the yuan. As the dollar falls to other

currencies it would boost U.S. exports. Krugman argues that interest rates will not “soar” since the Federal Reserve is holding them near zero, or as he says, “in short, right now America has China over a barrel, not the other way around.” Krugman, who supports a punitive tariff against China, argues that China’s undervalued currency further compounds the problems of the “liquidity trap” for most developed nations, including the U.S., as a result of China’s currency policy. According to Krugman, a liquidity trap is when states are unable to further stimulate their economies due to the low interest rates that have been implemented during this depression. However, writing in 2010, Krugman’s claims now seem exaggerated, since in the last five years the U.S. has made a dramatic economic recovery, although the benefits of this recovery have not been well distributed and wages continue to be stagnant. China’s undervalued currency can be one of many causes of depressed wages, but in the U.S. it is also the result of its own political and economic institutions and the limitations of ideology.

The growth of bi-partisan China bashing is a tendency that may yet still intensify in the coming years. Ironically, this is in part fed by the credibility gap both parties have to contend with. Since both parties do not enjoy strong support or legitimacy in the eyes of the public, they are forced to take more extreme measures to appeal to the public. The less the public trusts the parties, the more they have to make exaggerated arguments to appeal to the public. Free trade norms that inform the neoliberal Washington Consensus prevent both parties from seeing China's policy as anything other than deviant and sinister, and requiring a punitive response, even though, the legacy of the Asian financial crisis of the late 1990s, and the even larger global financial crash of 2008 have undermined the credibility of this consensus. Furthermore, threats from Congress and Presidential candidates intensify nationalism in China, something that the CCP increasingly depends on as an ideology to consolidate declining support.

Calls for a Bretton Woods II have become stronger since the crash of 2008, however such a

system cannot take shape without some level of cooperation between the U.S. and China. Constant threats to label China a currency manipulator will only undermine progress in this area. The threat itself lacks substance since it leads to no immediate retaliation under U.S. law. Attempts at passing tougher retaliatory legislation have, so far, stalled, but it is possible such legislation could pass if future Presidents favors a punitive policy. A change to a punitive policy would be a sea change in the executive's stance on China, but the most recent Presidential election, and the upcoming one in 2016, indicates it is increasingly possible, especially the populist tone of the upcoming Presidential election. Pushing international institutions like the IMF and the WTO to take a punitive stance towards China are not likely to yield positive results. The WTO is not authorized to intervene in currency disputes and has been resistant to U.S. protectionism in the past. The IMF lacks an enforcement mechanism and makes an equally poor choice as the instrument of punishment. The best solution to the currency dispute is through a negotiated consensus involving at least the IMF, if not the WTO and a host of other international institutions, including the UN. It is likely that if a new monetary regime were to become institutionalized, developed countries would have to legitimate undervalued currencies, to an extent, as a concession. In exchange, underdeveloped countries like China would have to agree to either currency appreciation objectives, or some timetable in which currency appreciation could take place, as well as other financial reforms.

#### **IV. Unocal: 2005**

In 2005, the China National Offshore Oil Company (CNOOC) attempted to purchase the Union Oil Company of California (Unocal). At the time this was the largest takeover bid ever made by a Chinese company (Ng and Cheng 2005). Originally, Chevron had offered to purchase the company for a sum around \$16 billion, when CNOOC decided to enter into the bidding. CNOOC's offer was

reportedly \$18.5 billion, however, CNOOC eventually withdrew its bid, and the company was eventually purchased by Chevron for \$17 billion (Gold 2005).

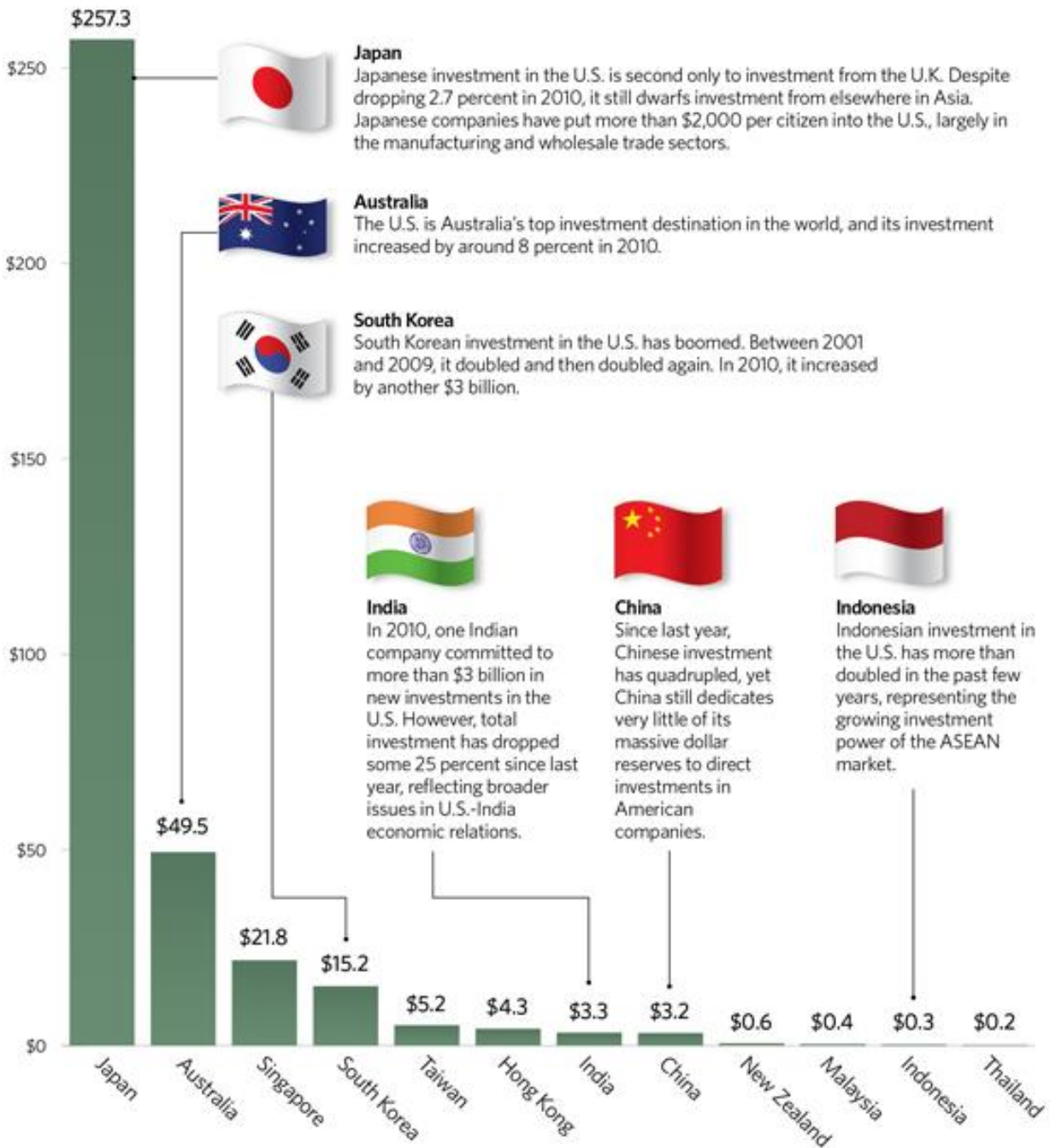
Despite the lower offer made by Chevron, this offer was accepted in large part because of the intense political backlash against the idea of a Chinese company purchasing an American energy company, even though, according to Merrill Lynch, almost a third of Unocal's oil reserves and three fourths of its natural gas reserves were in Asian states like Thailand, Indonesia and Myanmar (Barboza and Sorkin, 6/23/05). In other words, the "political risk" attached to CNOOC's offer outweighed the higher bid placed for the company, raising the question what can account for the political risk involved? Analysis of media and political discourse shows clearly that the issue was framed around the threat of China as a national security threat, thus this conflict emphasizes the existential threat of China, more than other communicative distortions resulting from free trade norms framing trade conflicts. The national security implications reflect both the importance of a "strategic asset" like an American-owned energy company, as well as the perception that the offer is being made by a state-controlled entity subordinate to the dictates of the Communist Party of China, even given the relatively low level of Chinese investment in the U.S. compared to other East Asian states.

Figure [4.1]

# Asian Firms Are Major Investors in the U.S. Economy

*The United States benefits enormously from its open investment regime.  
Investment from Asia creates millions of American jobs.*

Total Direct Investment in the U.S. as of 2010, in Billions of Dollars



Source: U.S. Department of Commerce, Bureau of Economic Analysis

This conflict reveals some of the contradictory implications and goals set by American policy. For example, the appreciation of Chinese currency would make it easier for Chinese companies to purchase American assets, similar to what happened with Japan after the Plaza Accord in the late 1980s and 1990s. Given the framing of trade conflicts with China, undoubtedly this would intensify the perception of China's threat as it acquires more U.S. assets. However, Chinese investment could also be beneficial to the U.S., especially since China already owns so much U.S. debt. Selling this debt, or in other words, selling the Treasury bills the PBOC owns would release dollars into general circulation, this could take the form of investment in the U.S. China's overseas foreign direct investment (OFDI) has grown from less than \$3 billion in 2005, to over \$365 billion by the end of 2011 (Rosen and Hanemann 2012). Chinese investment in the U.S. has increased as dramatically. Before 2008 investments totaled less than \$1 billion, to \$54 billion in 2015, however, still significantly less than over \$300 billion in Japanese investment (Rhodium 2015; OII 2014). The *China Business Review* states that Japanese investment employs 700,000 American workers, creates over \$60 billion in U.S. exports and spends over \$5 billion every year on research and development, and argues that Chinese investment can provide similar benefits (Rosen and Hanemann 2012). Not all obstacles for investment are on the part of the U.S. There are numerous obstacles for Chinese OFDI acquiring assets, including a weak regulatory environment, and a burdensome approval process by the CCP, that has also acted to block acquisitions of U.S. assets, as well as limitations on OFDI coming in to China (Rosen and Hanemann 2012; Marchick 2012).

However, as evidenced in this case, Chinese purchases of foreign assets aggravate fears of national conflict in the U.S. as well. The massive military build-up of China, despite its claim for a "peaceful rise," suggests what neorealist theorists predict as a result of rising new powers and reinforces the existential threat of China (Mearsheimer 2001). The Defense Department states that



China increased its military budget 5.7% of GDP in 2013, continuing two decades of continual increases in the military budget, including its first aircraft carrier in 2012 (Defense 2014). In 2014, China's military budget was estimated at \$145 billion, the second highest in the world, compared to almost \$600 billion in the U.S. (Rand 2015; IISS 2015). With heightening tensions in the region, the U.S. cautiously pursues a cooperative relationship with China in East Asia. This report from the Department of Defense states:

Over the long term, China's emergence as a regional power will have the potential to affect the U.S. economy and our security in a variety of ways. Our two countries have a strong stake in peace and stability in East Asia and an interest in building a cooperative bilateral relationship. However, the growth of China's military power must be accompanied by greater clarity of its strategic intention in order to avoid causing friction in the region. The United States will continue to make the necessary investments to ensure that we maintain regional access and the ability to operate freely in keeping with our treaty obligations and with international law. Working closely with our network of allies and partners, we will continue to promote a rules-based international order that ensures underlying stability and encourages the peaceful rise of new powers, economic dynamism, and constructive defense cooperation (Defense 2012, p. 2).

Economic conflict with China in East Asia, of course, overlaps with military conflict. In 2014 China established the Asian Infrastructure Investment Bank (AIIB) to supplement, or critics would say, compete with the Asian Development Bank (ADB) and World Bank. The AIIB is intended to focus more specifically on infrastructure, as compared to the other institutions, but the Obama administration has urged against joining the bank (*Economist* 2014). China claims to have founded the bank in order to address the \$8 trillion spending gap in infrastructure in Asia, but also, as *The Economist* asserts to counter the influence of Japan who controls the ADB, and by extension counter the influence of the U.S. in East Asia (*Economist* 2014). At the same time, the U.S. is negotiating the Trans-Pacific Partnership, the largest regional free trade ever attempted, although China is excluded, a move regarded by some as an attempt to contain China (Bhagwati 2013).

Among the numerous geopolitical issues involving China in East Asia, perhaps the most contentious issue pivots on the South China Sea (Kaplan 2005, 2014, 2015). Control over the vital sea-

lanes that link global trade also concerns energy resources, as Kaplan explains:

The South China Sea is no less important for China. If China can gain dominance, it then can have access to the wider Pacific and, through the Strait of Malacca, into the greater Indian Ocean, which is the global energy interstate, bringing all the oil and natural gas from the Middle East to the population zones of Asia. So this is really big stuff. Also, if China can dominate the South China Sea, then it will, effectively, “Finlandize” countries like Vietnam and the Philippines, which could affect the entire balance of power in Asia (Kaplan 2015, web).

Beyond East Asia and the Middle East, among the regions where China has had the most influence is Africa. Here, however, Chinese power is exercised more in the economic arena, through finance, an area of the world relatively neglected by the U.S. in terms of investment. In 2014, President Obama announced U.S. investments would come to \$14 billion in Africa, however compared to over \$75 billion invested by China between 2000-2011, this amount does not seem as significant (Burnett 2015). Regarding Chinese investment, the Council on Foreign Relations states:

Some experts refer to China’s financing strategy as the “Angola model,” by which Beijing provides low-interest loans to countries with low credit ratings, and in turn receives favorable rights to develop oil and mining projects. In 2014, Premier Li unveiled an extra funding package totaling at least \$12 billion for Africa, extending credit lines by \$10 billion and boosting the China-Africa Development Fund by \$2 billion. Experts say that most China’s funding has taken the form of infrastructure financing, which is direly needed on the continent; the Chinese central government, including its state-owned banks, said it will provide \$1 trillion in financing to Africa by 2025, much of which will go toward infrastructure, including transnational highways, railways, and airports (Alessi and Xu 2015).

Of course, many are worried of China’s increasing influence in Africa, its environmental standards, and its tolerance for regimes like the Sudan that have severe human rights issues, to say the least. Furthermore, the CFR argues that the benefits Chinese investment is supposed to provide may be overstated:

The impression that China has exploited resources without building up local African economies and society has triggered fierce criticism from some leaders. In September 2011, Michael Sata won Zambia’s presidency largely by tapping into anti-Chinese resentments after Chinese managers shot protesters at a large coal mine in southern Zambia one year prior. In 2013, Lamido Sanusi, governor of the central Bank of Nigeria, compared China’s presence on the continent to “a new form of imperialism (Alessi and Xu 2015).

The promotion of authoritarian regimes, or turning a blind eye to abuses can negate the interdependence and “soft power” benefits of investment (Nye 1990). As China emerges on the world stage, as a global player, it brings new potential opportunities for growth, if it can be channeled properly. The IMF estimates development in Africa to be almost 6 percent, but the growing presence of Chinese OFDI and its low standards for human rights also raises tensions with other regions of the world, and with the U.S. (IMF 2011). Chinese investment could be a beneficial force for growth in the world, however the punitive framing of conflicts tends to portray investment as a colonizing force and as a result the President, both Republican and Democrat in the past, have not stated a clear policy towards Chinese investment (Marchick 2012; Alessi and Xu 2015).

The dominant argument in the Unocal conflict is that it is too "dangerous" to allow the Communist Party of China to own strategic assets like an American oil company. This theme is displayed in *The New York Times* article, "Chinese Oil Giant in Takeover Bid for U.S. Company," citing a letter written to the President by two Republican Congressmen from California, Richard W. Pombo and Duncan Hunter, framing this as global conflict. They write: [1. *Mr*] “As the world energy landscape shifts, we believe that it is critical to understand the implications for American interests and most especially, the threat posed by China's governmental pursuit of world energy resources” (Barboza and Sorkin, 6/23/05).

1. The Council on Foreign Relations estimates that 70 percent of China’s foreign direct investment comes from state-owned enterprises (Marchick 2012, p. 1). China is the largest importer of oil in the world, second in oil consumption to the U.S., once the largest exporter of oil in Asia, since 1993 it has been a net importer (Bloomberg 2015; Alessi and Xu 2015). China imports over 50 percent of its oil from the Middle East and 23 percent from Africa (Alessi and Xu 2015). Its largest African suppliers are: Angola, Equatorial Guinea, the Republic of the Congo, Nigeria and most controversially, the

Sudan (CFR, 2015). Recent evidence of China's economic slowdown indicates its oil consumption may slow as well. Rep. Pombo and Hunter are known as receptive to the interests of oil companies. Both Reps. were among the most conservative members of Congress and advocate an aggressive militaristic foreign policy.

Major investments by China are framed as a military threat. In another article from *The New York Times*, "Unocal Deal: A Lot More Than Money Is at Issue," the emphasis on China is that it is a communist state, and does not rule out the possibility of armed conflict: [1. Mr] "It does raise questions about how much of the country we are willing to sell to a Communist country that we might be fighting someday,' said Michael O'Hanlon, an international military specialist at the Brookings Institution. [2. Mr] But he added, 'I'd be surprised if we really fall on our sword to prevent the sale'" (Wayne and Barboza, 6/24/05).

1. The readiness of the U.S. to engage China, if need be, should not be questioned. The U.S Pacific Command (PACOM) has over 350,000 military and civilian personnel, roughly one-fifth of total U.S. military strength (Cordesman 2014). The Center for Strategic and International Studies (CSIS) states:

The US Pacific Fleet included five aircraft carrier strike groups, more than 140,000 personnel, 180 ships, and almost 2,000 aircraft. US Marine Corps Pacific possessed about two-thirds of US Marine Corps combat strength and included approximately 85,000 personnel and two Marine Expeditionary Forces. US Air Forces Pacific had approximately 43,000 airmen and 435 aircraft; US Army Pacific had more than 60,000 personnel, including five Stryker brigades. PACOM also had over 1,200 Special Operations personnel. In addition, there were about 27,000 Coast Guard personnel available to support US military forces in the region (Cordesman 2014).

2. In this case, O'Hanlon is incorrect, the U.S. did "fall on its sword" to prevent the sale, no doubt in part motivated by the kind of rhetoric that stresses China as a military threat.

The same article cites Clyde Prestowitz, well known for stoking fears against Japan in the 1980s. Prestowitz, unsurprisingly, also interprets the proposed deal between Unocal and CNOOC in a threatening way:

[1. Mc] This is a remarkable arrival of China into the world of global big business deals and

international investing," said Clyde V. Prestowitz Jr., a former trade negotiator in the Reagan administration and president of the Economic Strategy Institute in Washington. [2. Mr] "And it does raise the issue of whether this gives influence or some kind of potential importance to a government that may not always be friendly to us" (Wayne and Barboza, 6/24/05).

1. The IMF estimates that China contributed 27.8 percent to global economic growth, compared to only 15.3 percent for the U.S., according to *Xinhua* (Xinhua 2015). According to *China Business Review*, before 2009, most Chinese investment was in underdeveloped countries, but since then its stock of investment in the U.S. and Europe has climbed sharply (Rosen and Hanemann, 2012).
2. China's growing power and influence is, of course, contrasted with the notion that China is still a potential rival, and that allowing a rival to increase its power in this way, may be dangerously counter-productive for the U.S. in coming decades.

Similar to the aftermath of the Plaza Accord, increases in Chinese investment are likely to be seen as something harmful to the U.S. Since the 1980s and 1990s, Japanese investment is now seen as beneficial. Yet, even at the peak of anti-Japanese sentiment, Japan was never seen as the kind of military rival China is -- claims for an "economic Pearl Harbor" notwithstanding. One reason the threat of Japan diffused was because of the decline in Japan's economic prominence, as it began the decades long battle against deflation. China's economy has shown signs of slowing, but assuming that its economy does not suffer any major downturns, it is likely that as the levels of Chinese investment grow in the U.S., and throughout the world, that conflicts like the blocked sale of Unocal will intensify and become more frequent, especially as military and security rivalries between the U.S and China become more heated.

## **V. Solar Power: 2011-present**

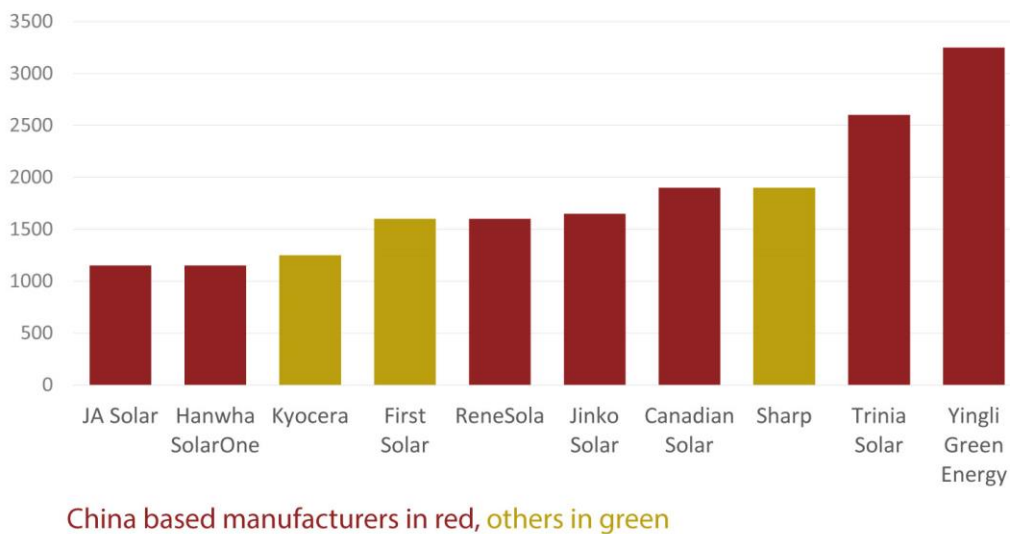
In 2011 the U.S. solar company Solyndra declared bankruptcy. This was especially damaging to the Obama administration as the company received significant government assistance, in the form of loan guarantees valued at over \$500 million (Snyder and Wingfield 2011). After the bankruptcy of

Solyndra in 2011, leading manufacturers, led by SolarWorld, a German based firm with operations in the U.S., filed a 201 petition with the Department of Commerce. In 2012, Commerce ruled in favor of U.S. manufactures, levying tariffs ranging from 19 to 35 percent on Chinese made solar panels. China retaliated in 2013, raising tariffs on U.S. and South Korean exports of polysilicon, a crucial component in the manufacture of solar panels. The following year, the U.S. again raised tariffs on Chinese solar panels, also raising tariffs on Chinese panels partially manufactured in Taiwan.

The leading advocates for tariffs were a coalition of solar-panel manufacturers, led by SolarWorld. After SolarWorld unsuccessfully tried to lobby the German government to raise tariffs on Chinese solar panels, it turned its attention to the U.S. Arguments for tariffs emphasized the heavily subsidized nature of China's solar industry. Once again, arguments for tariffs lacked a solid empirical foundation. Evidence would show that U.S. firms receive more subsidies from the government than Chinese firms (Hollingsworth 2015).

Figure [4.2]

### World's Biggest Solar Manufacturers (MW in 2013)



Source: IHS

Although the Bush and Obama administrations have been careful not to jeopardize trade with China, confrontational rhetoric has intensified. Under the Obama administration, the promotion of renewable energy is a major plank in the President's platform, and the bankruptcy of Solyndra became a major liability for the administration. In this excerpt from the State of the Union address in 2012, President Obama contrasts his administration's record of confronting China with the previous administration, and clearly suggests that taking a tougher stance with China is good policy:

I will go anywhere in the world to open new markets for American products. And I will not stand by when our competitors don't play by the rules. We've brought trade cases against China at nearly twice the rate as the last administration--and it's made a difference. (Applause)...But we need to do more... Its not fair when foreign manufacturers have a leg up on ours only because they're heavily subsidized (Obama 2012).

The President also shares the ideological perspective that government subsidies for industries are illegitimate. The President goes on to emphasize more of a confrontational stance with China over the next several years, while stressing the competitiveness of American workers:

Tonight, I'm announcing the creation of a Trade Enforcement Unit that will be charged with investigating unfair trading practices in countries like China. (Applause)...Our workers are the most productive on Earth, and if the playing field is level, I promise you--America will always win (Applause.) (Obama, 2012).

Familiar platitudes about the superiority of American workers are on display. The notion of creating a level playing field is suggestive, because it clearly points attention to the underlying notion that other states must adapt to the U.S. and not the other way around. For example, if most other developed states provide more social benefits and industrial policy, then it could mean that creating a level playing field would require the U.S. to adapt to these measures, but plainly the imperative is that other states must adapt to the U.S.

From the same speech, the President specifically focuses on the importance of solar (and other green energies) indicating the competitive nature of this market with states like China and Germany -- and also alludes to the recent failures of U.S. companies like Solyndra: "Some technologies don't pan

out; some companies fail. But I will not walk away from the promise of clean energy...I will not cede the wind or solar or battery industry to China or Germany because we refuse to make the same commitment here" (Obama 2012). Here, the President contradicts himself, on the one hand, the perception that China heavily subsidizes its industries is perceived as deviant or illegitimate, on the other hand, the President seeks similar assistance for U.S. industries. The President's call for an industrial policy, however, is undermined by his very own attempts to condemn the industrial practices of China. In the next passage, he goes on to implore Congress for passage of legislation that will help these industries: "We've subsidized oil companies for a century. That's long enough. (Applause.) It's time to end the taxpayer giveaways to an industry that rarely has been more profitable, and double-down on a clean energy industry that never has been more promising. Pass clean energy tax credits. Create these jobs" (Obama 2012). The President emphasizes tax credits, thus also revealing the limitation of a liberal market that does not possess the same institutional structure necessary for the implementation of an industrial policy similar to Germany that still leads in solar power installation (Wheeland 2014).

The importance of green energy as a developmental strategy for the Obama administration has continued to be a point of focus, as well as a confrontational stance with China. In this excerpt from the following year's State of the Union in 2013, President Obama continues to walk the complicated balancing act of asking for more government assistance for industries, while also condemning the unfairness of China's economic policies: "Four years ago, other countries dominated the clean energy market and the jobs that came with it. And we've begun to change that. Last year, wind energy added nearly half of all new power capacity in America. So let's generate even more. Solar energy gets cheaper by the year -- let's drive down costs even further. As long as countries like China keep going all in on clean energy, so must we" (Obama 2013).

From the State of the Union in 2014, the President again emphasizes the importance of solar



industry, and again asks for government assistance, but is limited to policy options like tax credits, given the structure of a liberal market:

Its not just oil and gas production that's booming; we're becoming a global leader in solar, too. Every four minutes, another American home or business goes solar; every panel pounded into place by a worker whose job can't be outsourced. Let's continue that progress with a smarter tax policy that stops giving \$4 billion a year to fossil fuel industries that don't need it, so that we can invest more in fuels of the future that do (Obama 2014).

In this conflict, like other trade conflicts, policy options are limited to punitive policies. Since the attempt at energy policy during the Carter administration, largely seen now as a failure, no attempts to formulate an industrial policy around the idea of solar energy have been made by the federal government. The Public Utility Regulatory Policies Act in 1978 (PURPA) proposed to promote energy conservation and increase renewable energies, but stalled under the Reagan administration due to spending cuts and the elimination of tax breaks for wind and solar (Biello 2010). The American Recovery and Reinvestment Act of 2009 (ARRA) provides an expansion of tax credits for renewable energy, under the Energy Policy Act of 2005, but these measures are not adequate to compensate for decades of deliberate underinvestment on the part of the U.S. government, with its close relationship to the fossil fuel industries, as well as the tenacity of countries like Germany and China to lead in this industry. The President does not propose to expand on the legitimate “policy tool-kit” of tax credits and other indirect policy options limited to free market norms, thus, as the U.S. falls further behind, it is more likely to push for punitive policies. The existential threat of Chinese subsidies for solar energy, its unlawful nature, is again used to legitimate tariffs against foreign imports, even though the Obama administration proposes similar strategies for U.S. industry. In this case, by limiting solar cell imports from China, the U.S. is slowing down the process by which solar energy can replace fossil fuels (Stephenson 2015). The Solar Energy Industry Association estimates that, without tariffs, the U.S. would have been able to install an additional 10 gigawatts (GW) of solar annually (SEIA 2015). Tariffs

also lessen the benefits gained from solar imports as well. Imports from China have stimulated the solar installation industry in the U.S., as well as the exports of polysilicon to China used to make solar cells, with installation of solar growing over 34 percent in 2013 (although U.S. is fifth in total solar capacity) and exporting \$2.5 billion in polysilicon in 2010, or 25 percent of global supply (SEIA 2014, p.1; Wheeland 2014; St. John 2011). Competition from the Chinese solar industry could be framed as a way to generate support for a more long-term strategic energy policy, but instead the threat of China is channeled into punitive policies. The goal of reaching a negotiated settlement for a still ongoing trade war is also complicated by the punitive framing of this conflict (SEIA 2015).

Framing the conflict over solar cell imports with China in punitive terms delegitimizes the idea of providing subsidies to support new industries, thus undermining the President's efforts to mobilize support for new industries in the U.S. On the one hand, the President condemns this practice in China, while on the other he advocates for policies to support American industries. This results from the ideological barriers of free trade norms that force this contradictory perspective. The *Washington Post* article, "U.S. Solar Companies Claim Dumping by China, Seek Duties," describes how China subsidizes its industry:

[1. *Mc*] The companies complain that China has aided its solar power companies with low-interest loans, cheap land deals and lax environmental standards that lower costs. [2. *Mc*] In addition, they say that China's currency, which is generally believed to be 10 to 35 percent undervalued, makes Chinese exports cheaper than they should be. [3. *Mc*] Moreover, they allege that many of the Chinese companies are losing money on their U.S. sales, a tactic designed to grab market share and drive U.S. competitors out of business (Mufson, 10/20/11).

1. According to *Greentech Media*, funding for Chinese solar companies is only a fraction of the total funding available for this industry. They claim that five firms: Suntech, Yingli Green Energy, Trina Solar, JA Solar and Xinjiang Goldwing Science and Technology have only borrowed \$866 million of the almost \$30 billion available through government financed credit lines (St. John 2011). *Greentech* estimates that Suntech was paying between 4-5 percent interest on its loans, "which hardly qualifies as

unfairly low interest rates,” despite claims to the contrary (St. John 2011).

2. This refers to the previous case of currency appreciation and illustrates how these conflicts overlap.
3. This fits the definition of “dumping” as defined by the WTO, however evidence to support this claim does not seem to measure up. As Ho argues, it is actually very difficult to prove “predatory pricing” for the WTO (Ho 2003).

In order to legitimize tariffs, the existential threat of the CCP must be emphasized, from the same article: [1. *Mc*] "We can compete with any country in the world, Santarris said. [2. *Mc*] 'However, it is very difficult for us to compete with the Communist Party of China'" (Mufson, 10/20/11).

1. SolarWorld makes about 55 percent of its sales in Europe, mostly in Germany (Hoovers 2015). The SEIA, the industry group that represents the industry includes Chinese firms like Yingli. Chinese firms operating in the U.S. must accommodate U.S. standards and regulations (SEIA 2015).
2. The *Harvard Business Review* claims China’s top solar firms had debt ratios over 80 percent in 2012 and without government subsidies would be out of business (Haley and Haley 2013). It states that Chinese products cost 25 to 30 percent less than American and European products. However, according to the Commerce Department Chinese subsidies averaged between 2.9 and 4.73 percent, a smaller amount than expected (Clayton 2012).

The punitive framing of Chinese subsidies is reflected by Congressional Democrats close to the industry. *The Washington Post*, editorial "China Cheats on Solar Panels," by Sen. Ron Wyden (D-OR), ends his appeal for tariffs by imagining a future scenario where China dominates manufacturing. He makes his argument while trying to get around the fact that many U.S. industries benefit from this trade: [1. *Mr*] To accept these actions because it is helpful to consumers (for now) is to accept a world in which China chooses the industries it wishes to dominate and the United States is forced to take what's left" (Wyden, 10/29/12).

1. The Energy Department states as recent as 1995, the U.S. led the world in solar production, but by 2010 had declined by 34 percent, due to underinvestment over the previous 30 years (Energy 2015).

The inconsistency of punishing for subsidies while also advocating for government support only undermines the government's own argument for support. This inconsistency has been exploited by the CCP as well. *The Washington Post* article, "The Race to Rule the Sun," goes on to indicate that Chinese authorities are beginning now to investigate U.S. "dumping":

[1. *Mc*] Indeed, Chinese authorities have said they would investigate U.S. subsidies to solar manufacturers. [2. *Mc*] Those include a 30 percent production tax credit, investment tax credits, research and development grants, and the Energy Department's recent loan guarantees. [3. *Mc*] In addition, renewable energy standards in about 30 states are requiring electric utilities to boost the share of renewables in their power-generation portfolios, essentially forcing them to buy solar even if at higher prices, a subsidy hidden in utility rates paid by consumers (Mufson, 12/18/11).

1. The punitive framing of this conflict puts the U.S. in a position where it is vulnerable. Rather, than acknowledge the need for an industrial policy, the U.S. opens itself up to the same claims of subsidies made against China.

2. The Energy Policy Act of 2005 established an Investment Tax Credit (ITC) of 30 percent for solar installation (Energy). The SEIA argues that this credit helped double the capacity of solar between 2006-07 (SEIA 2015).

3. As an attempt to increase renewable energies, 30 states and Washington D.C. have adopted Renewable Portfolio Standards (RPS), another market mechanism, a regulatory mandate to purchase energy from renewable sources (NREL 2015). States like New York have the highest RPS at 30 percent, however, this has increased costs and some states like Ohio and North Carolina have had to "freeze" these standards in order to keep costs down (Nangeroni 2014; Savenjie, 2015).

An alternative to this punitive framing shows that cheaper imports from China have driven

down the price of solar. The same article goes on to contrast the punitive framing of this conflict by focusing on the competitive aspects: [1. *Mc*] “Wholesale solar panel prices have dropped as much as 50 percent this year, and retail prices are less than half what they were five years ago. [2. *Mc*] Industry experts say that the day is near when solar can compete against other energy sources without subsidies” (Mufson, 12/18/11).

1. The price of solar is now cheaper than many fossil fuels according to the International Renewable Energy Agency (IRENA 2015). The price of Chinese imports has driven the price down from \$1.30/watt in 2011 to .50/w in 2015 (IRENA 2015). The Energy Department states that when solar drops to \$0.06/w it will be cost-competitive with non-renewable forms of energy (Energy 2015).

2. The price of solar is now cheaper than many fossil fuels according to the International Renewable Energy Agency. Subsidies for fossil fuels, amounting to anywhere between \$10 billion and \$52 billion, however, slow down this process (OCI 2014).

As the U.S. pursues punitive tariffs against Chinese made solar panels, China continues to move further ahead both in terms of manufacturing and in transitioning to solar energy: [1. *Mc*] “But in the new five-year plan, the Chinese government has set a goal of generating 20 gigawatts of electricity with solar by 2020. [2. *Mc*] That would represent just 1 percent of China's expected power generation, but it would be roughly equal to the world's total installed capacity” (Mufson, 12/18/11).

1. Total electricity produced by solar in China increased by more than 200 percent between 2013 and 2014, according to China's National Energy Administration (NEA). The NEA estimates that government has already exceeded the 20 GW capacities and has already reached 28.05 in 2014, although this figure seems exaggerated. A more realistic estimate puts China's capacity at 18.3, second in the world after Germany (Wheeland 2014).

2. Solar Power Europe estimates there is currently 178 GW total world capacity for solar, a dramatic increase from less than five years ago. Of this capacity, Germany accounts for the most (22 percent), followed by China and Taiwan (16.3 percent), the U.S. comprises only 10 percent of solar capacity. In terms of installed solar capacity China has 18.3 GW (up from .350 GW in 2009), second only to Germany 35.5 GW (from 9.8 GW in 2009), the U.S. trails in 5<sup>th</sup> place at 12 GW (from 1.6 in 2009), thus China has passed the U.S. in manufacturing and also in installed solar capacity (Wheeland, 2014).

In this case as in all the others, arguments for tariffs lack a solid empirical foundation. The U.S. condemns China's subsidies, even while the President urges Congress for more subsidies for U.S. industries. Economic sectors benefit from cheap Chinese solar panels, yet, in the name of protecting American workers the administration pursues tariffs to condemn the same practices they are advocating for. The case of solar panels reveals the similar interest group dynamics, constrained by free trade norms, which motivate attempts to raise tariffs on China in the previous cases. Alternative policies to tariffs could be pursued, but the dominance of neoliberal ideology and liberal market institutions severely undermine attempts at pursuing alternatives, even though alternative policies can be rationally grounded.

## **VI. Conclusion**

In all of the trade conflicts involving China under analysis, the same pattern reveals itself as in trade conflicts with Japan. The framing of arguments, again, reveals the limitations of free trade norms. Much like in the case of Japan, structural reform policies are delegitimized in favor of punitive policies. There is even less debate over industrial policy, and for most Democrats, punitive tariffs are the only viable option for addressing demands for protection from international trade, and the authoritarian and totalitarian aspects of the Chinese government are used to legitimate punitive policies. In this case,

because the actions of the government are often so reprehensible it makes all the more easier to channel this resentment into punitive policies. While in no way trying to defend China's abysmal record, a note of caution should be voiced regarding the attempt to frame this threat in a way to support punitive policies that have been proven to be ineffective, and divert attention away from structural reform policies, and in the final analysis does little to better the situation of American or Chinese workers. Unlike the case of Japan, trade conflicts with China show no signs of decreasing in intensity, and most indications suggest increased tension over the next several decades. Strident calls for liberalization of exchange rates and ceasing subsidies for Chinese industries made by many U.S. policymakers and interest groups, will in all likelihood, not be heeded by the Chinese government, or perhaps more accurately China will continue to liberalize, but only at its own pace.

China's economy shows signs of slowing down as China reaches higher levels of economic development, but that is fairly normal as economies develop and grow larger. China's slowing growth can be traced to demographic factors as well. As the population ages, due to the one-child policy, results in a literal shortage of young people to work. The conventional wisdom from the U.S. is that China must maintain exceedingly high levels of economic growth in order to prevent instability, and outright insurrection and rebellion. Besides slowing growth, China does also display signs of a bubble economy similar to Japan's, in that a credit bubble, financed by the government, is helping to create a housing bubble, and if, and when, the bubble bursts, it could lead to a similar lost decade scenario like Japan. However, even if that were to occur, as China's economy declines it could increase pressure to intensify the kind of trade and economic practices that U.S. officials and industries find so objectionable, or what in the 1930s was called "beggar-thy neighbor" policies, which see increased competition between large economies responding to a recession or depression, and which results in dumping and competitive devaluations of the currency, issues that inflame U.S. interest groups. Also,

when Japan began its economic decline it was very quickly eclipsed by the rise of China, at least from the perspective of the U.S. There is no indication that any other state would replace China in this role. Even as foreign investment flows into India, South Korea, Taiwan and Southeast Asia, none comes close to equaling the sheer volume of trade produced by China.

Since the CCP holds most of China's debt, if the bubble were to burst, it would not spread like a contagion to other states. To manage these kinds of potential crises actually undermines the case for further liberalization, since that only leads to more volatility and more unpredictable shifts in economic forces. So far, the government has maintained a delicate balancing act of raising interest rates to cool off the economy and lowering interest rates to stimulate more spending, to respond to fluctuations that can easily turn into another crisis. The difficulty of maintaining this balance, and the flexibility and adaptation to respond to economic shifts is complicated by the dynamics of the global economy and China's main trading partners. The sluggishness of the American and Eurozone economies has had a depressing effect on Chinese economic growth as well, so efforts to cool off the economy end up being reversed by policies to stimulate spending. Housing prices in China plummeted as much as 20 or 50 percent in some cities, virtually overnight, but then was further stimulated by the government to raise prices again. The Chinese government seems unable to fully pull out of its dependence in the housing market, but this is in part due to the lack of alternatives for investment in China. One area of liberalization that could be beneficial is to adopt the transparency standards for corporations, the stock exchange as well as for government bureaucracies, this will help establish trust and confidence in other institutions for investment, and reduce corruption that is also endemic within Chinese corporations and government bureaucracy. If the global economy as a whole were more stable, then there would be less pressure on China to continue stimulating spending through debt. The precariousness of this situation means that it is unlikely the Chinese government will accelerate its path of liberalization in conformity



with U.S. policymakers.

Another important factor that needs to be taken into consideration is that China's economy is still in its developing stages. Its per capita GDP is still very low compared the U.S., Japan, or other developed economies (CIA 2015). The level of urbanization in China is just over half, where in most developed economies, almost 80 or 90 percent of the population live in urban areas. The service sector only barely exceeds the percentage of GDP concentrated in industries, where in most developed economies the service sector is usually at least twice as large as the concentration of GDP in industry (CIA 2015). What this means is the level of competitiveness in the structure of trade between the U.S. and China has yet to hit its peak. What happens when Chinese autos, computers, telecommunication, internet services, etc., are in more direct competition with U.S. industries, as early signs show already, and similar to the level of competition between the U.S. and Japan in the 1980s? There is no indication that China's lead in developing renewable energy resources is declining either. When trade conflicts with Japan intensified in the 1980s, Japan had already attained the status of a developed economy and was in more direct competition with the most important, and most advanced U.S. industries. Conflicts with China have reached already such a high pitch of intensity, even though China is still largely a developing economy, and the structure of trade with China is still largely complementary, meaning that the bulk of Chinese exports still tend to come from sectors where the U.S. has presumably moved away from (although workers in those sectors may not be aware of that).

Another dimension lacking in the conflict with Japan is the national security dimension to these conflicts, which unquestionably raises the intensity level. Many commentators in the U.S. were critical of the idea of Japanese investors purchasing U.S. assets in the 1980s whether it was Rockefeller Center or Columbia Pictures (an unintended consequence of the appreciation of the yen), but it does not compare to the intense condemnation of the attempted purchase of Unocal by CNOOC. By the end of

the 1980s, the U.S. was putting enormous pressure on Japan to build up its military and take more of an active role in policing the region, but reacts with anxiety at the idea of China's military buildup. In the international arena, there is a range of potential issues that could serve to catalyze conflict. The unpredictability of the North Korean regime raises tensions; the still unresolved issue between the PRC and the Republic of China in Taiwan is also a potential catalyst. Beginning in 2014, there have been major demonstrations in Hong Kong, dubbed the "umbrella revolution," an extension of the occupy movement, and poses the most serious challenge to the institutional principle of "one country, two systems" which has defined the re-absorption of Hong Kong into China since 1997. Also, conflicts between China and other Asian states regarding the Spratly and Paracel islands create great controversy and tension; or conflict between China and Japan over the Ryukyu and Senkaku islands, not to mention the still lingering animosity between these two states from World War II and the Second Sino-Japanese War. Commentators in the U.S. portray China as propping up the teetering North Korean regime, even while leaked documents suggest that China would accept Korean reunification under the South. Commentators also frame the conflicts over the Spratly and Paracel Islands as China versus the rest of the states in the region, even though states like the Philippines, Indonesia, and Vietnam argue as intensely with each other, as they do with China. The U.S. also has an interest in this conflict for the reported large quantities of natural gas and oil that can be exploited from drilling in the seabeds around these islands. These manipulative and self-serving impressions are easier to circulate in U.S. media since it plays on people's ignorance of foreign affairs. This is happening at the same time in which the U.S. is trying to isolate China with the passage of the Trans-Pacific Partnership (TPP) that will help consolidate the institutionalization of the Washington Consensus. The most intense conflict between the U.S. and China would probably involve a third party actor provoking, or creating some kind of international incident, that would force the U.S. and China to react using economic, and perhaps even military means.

Even in the absence of that kind of worst-case scenario, which cannot by any stretch of the imagination be ruled out, conflicts with China will continue to intensify as the Chinese economy develops more and takes on more of the features of a developed economy. If U.S. economic growth continues to be sluggish, if it is unable to raise its exports to China in products other than scrap metal and raw materials, and if it is unable to pacify the tremendous social instability resulting from stagnant wages and a mélange of other social and political dysfunctions, then it is likely that trade wars and other sanctions will continue to intensify in the frequency in which they occur and in the depth of the conflicts themselves. These forms of conflict are all but guaranteed to intensify, so long as free trade norms narrow the framing of trade discourse, and obstruct the adoption of new policies that may have a chance of reversing over three decades of failure to effect positive trade outcomes.

## 5. Conclusion: Lessons From an Analysis of Trade Discourse

The critical theory of Jürgen Habermas provides a new perspective to view trade conflicts and new theoretical paths to maneuver the last century of the development of the social sciences, particularly over the last three or four decades. The introduction of critical theory into mainstream research can help rescue critical theory by bringing it back to social scientific research from its “exile” in the arts and humanities, where it has dwelled since the 1970s. At the same time, it provides a reflexive epistemological foundation for political and social theory that was sorely lacking before the 1970s, something that is crucial for attempts for the U.S. and China to reach an understanding with each other.

The emergence of critical theory in the 1920s was predicated on a break from the positivist underpinnings of orthodox (or “vulgar”) Marxism while still preserving the most potent critical elements of Marxist historical materialism. This break, in turn, stems from the descent of the Soviet Union into authoritarianism under Lenin and then totalitarianism with Stalin. Despite the brief “thaw” during the “popular front” era of the 1930s, and the “Big Four” of the United Nations of the 1940s (a time when Stalin was referred to in the U.S. as “Uncle Joe”), by the 1950s, the totalitarian nature of the Soviet Union could not be denied, helping spur the development of the “new left” in the Anglo-American world (Mills 1960; Birchall 2007). The Frankfurt School’s distrust of Soviet Marxism was consistent since the 1920s and equally skeptical of the allied powers that, after all, in the language of critical theory, only constitute different forms of a “totally administered society” (Marcuse 1964; Horkheimer and Adorno [1944] 1972).

Even more controversially, by the 1960s, Marcuse, like many radical intellectuals (but unlike Adorno and Horkheimer who were remarkably consistent in their pessimism) had started to turn towards conflict in the “underdeveloped” third world as the new global arena in which the struggle against capitalism would be waged (Fanon 1961; Sartre 1964). These views are on display in Marcuse’s

“Political Preface” to *Eros and Civilization*, written in 1966. Here Marcuse says, in contrast to the “affluent society,” the struggle against capitalism is intensifying in the underdeveloped countries:

Or rather it has changed its social location. It exists, and explodes, in the revolt of the backward countries against the intolerable heritage of colonialism and its prolongation by neo-colonialism. The Marxian concept stipulated that only those who were free from the blessings of capitalism could possibly change it into a free society: those whose existence was the very negation of capitalist property could become the historical agents of liberation. In the international arena, the Marxian concept regains its full validity. To the degree to which the exploitative societies have become global powers, to the degree to which the new independent nations have become battlefields of their interests, the “external” forces of rebellion have ceased to be extraneous forces: they are the enemy within the system. (Marcuse 1966, pp. xv-xvi)

Marcuse saw in the “underdeveloped” or “third world” countries a possible alternative to the affluent society of the liberal democracies:

The historical advantage of the late-comer, of technical backwardness, may be that of skipping the stage of the affluent society. Backward peoples by their poverty and weakness may be forced to forego the aggressive and wasteful use of science and technology, to keep the productive apparatus *à la mesure de l’homme*, under his control, for the satisfaction and development of vital individual and collective needs (p. xviii)

Ironically, China, which was beginning its Cultural Revolution in 1966 against materialism and affluence, has now embraced almost every aspect of the affluent society. However, it does suggest a critical point of view towards those who proclaim that China (and the rest of the world) must become more of a consumer economy like the U.S. This is not the only aspect of Marcuse’s analysis that might seem outdated. In fact, the concept of the “affluent society” itself seems obsolete after a thirty-year period of rising income inequality compounded with stagnant incomes and rising debt for most Americans.

Frankfurt School intellectuals also lived through decline of the labor movement, most importantly the failures of communist revolutions and brutal suppression of the Spartacists in 1919 that was overseen by the ruling German socialist party. Also at this time, the development of Freudian psychoanalysis opened up a new understanding of the mind and the motivations for human behavior,

and offered a more complex understanding of behavior than the rational self-interest that underpinned liberal theory, at the same time that avant-garde modernist movements like surrealism and dadaism in literature and painting challenged these same rationalist assumptions in the aesthetic sphere (Breton [1924, 1930] 2007; Benjamin [1929] 2007). Many of the most influential critical theorists like Lukács, Horkheimer, Marcuse, Adorno, and Benjamin possessed a strong artistic and philosophical background, enhanced with a psychoanalytical perspective (Lukács rejected Freudianism and later endorsed Stalinism), and the disillusionment with movements based on a positivist interpretation of Marxism, this formed the seedbed out of which critical theory grew.

Despite skepticism towards “scientism” as a philosophical perspective, the Frankfurt School of the 1930s committed itself to an interdisciplinary model of research that would draw on all fields of knowledge including the empirical sciences as well as the humanities to provide a substantive empirical foundation that would reinvigorate the critical notion of reason that in their view had been reduced to a means of calculation for the new “technocratic” ruling class (Horkheimer [1931] 1989; Bronner and Kellner 1989). This project was interrupted by the rise of Nazism, forcing most of the members to seek asylum in the U.S. (tragically with the exception of Benjamin) where they were allowed to resume their studies with the sponsorship of Columbia University in New York City. However, in the analyses of “third generation critical theorists” like Martin Jay, Marshall Berman, Andrew Arato, Richard Wolin, or Stephen Bronner, the project of the Frankfurt School ultimately failed. Critics argue they retreated from the idea of interdisciplinary scientific research to a more pessimistic philosophy of history and withdrawal into the aesthetic realm as the last refuge for subjectivity (Jay [1973] 1996; Arato and Gephardt 2002; Wolin 1992; Bronner 1994, 2006; Berman 1982). The most strident critics of the Frankfurt School dismiss them as “cultural mandarins” who are almost completely disengaged from the practical realities of politics, and even their defenders characterize them as offering a valuable but flawed perspective in need of refining, one that “reclaims the Enlightenment” rather than renounces it.

The most recent generation of critical theorists, however, despite the imperative to “reclaim the Enlightenment,” remain in this aesthetic and philosophical paradigm and do not engage directly with empirical political phenomena in the fields of comparative politics or international relations.

Furthermore, the notion that the Frankfurt School abandoned scientific research in the 1940s, suggested by contemporary critical theorists, seems exaggerated, and in fact critical theorists like Adorno never abandoned empirical research as a foundation for a non-repressive political practice, although ultimately Adorno did fail to articulate a coherent political theory. Arguably the most brilliant member of the early critical theorists, Theodor Adorno, is associated with the philosophy of history articulated in *Dialectic of Enlightenment* that he co-wrote, and for his analyses of the “culture industry” and social psychological research on the “authoritarian personality,” the latter of which also suggests that Adorno remain committed to an empirical paradigm for critical theory (Adorno and Horkheimer [1944] 1972; Adorno et al 1950; Bronner and Kellner 1989). However, despite the importance of the philosophy of history and theory of the culture industry, focusing on these aspects seems to overlook, at least to some extent, the engagement with social science in the 1950s after Adorno’s return to West Germany. As the new director of the Institute for Social Research (the formal name of the Frankfurt School) Adorno oversaw numerous empirical research projects dealing with issues like racism and anti-Semitism, analyses of public opinion, mass culture, and ideology critique, and until his death in 1969 was a high-profile public intellectual in the German Federal Republic, even utilizing the “dread” means of mass communication like the radio to address audiences (Müller-Doohm 2009). Adorno’s highly nuanced position on the relation between theory and practice (or praxis) stressed that practical concerns drive theoretical activity, but theoretical explanation cannot provide a concrete foundation for action, and theory must remain a separate activity in order to preserve its integrity and resist the tendency to become dogma for political extremism:

Adorno’s starting-point was the assumption that ‘practice is the source of energy of theory,’ but

no path leads from the latter to the former. Theory is ‘not only a means of the totality but also a moment of it; otherwise it could not resist to any degree the captivating spell of that totality.’ If, on the other hand, the distinction between theory and practice is negated and the idea of an indistinguishable unity is promulgated, this leads to the primacy of practice (Müller-Doohm p. 462).

He wished rather to draw attention to the Archimedean point at which ‘a non-repressive practice might be possible, and one might steer a path between the alternatives of spontaneity and organization.’ ‘This point, if it exists at all, can only be found through theory’ (p. 462).

The failure of Adorno to articulate a practical political theory, however, cannot be underestimated and can partially account for two contradictory developments: some of his students took up violent revolutionary activity in groups like *Rote Armee Fraktion* (RAF); while others retreated into aesthetic critique and detachment from politics.

Habermas’ break with Adorno turns on what he characterizes as Adorno’s failure to move away from the perspective of a subject-centered philosophy of consciousness, instead of an intersubjective model of communicative action (Habermas [1981] 1984). For Habermas, the retreat into the aesthetic results from a situation when analysis cannot grasp the potential for rational action that remains in social and political life. From Adorno’s point of view, the goal of theory becomes a means of rescuing an increasingly vulnerable subjectivity by articulating the conditions through which subjectivity can express itself free from the reifying effects of modern forms of administrative and exchange processes. From Habermas’ point of view the goal of theory is to reconstruct the conditions under which a rational discussion can take place, and is not as concerned with the authentic expressions of a “true” subjectivity that exists under or behind the socially constituted self, a notion rendered fairly dubious after the extended critique of the “death of man” put forward by “post-structuralist” theorists (Habermas [1981] 1984; Foucault 1984). By separating knowledge into different realms, corresponding to its theoretical, practical, or expressive content, Habermas is able to navigate through the seemingly irreconcilable antinomies generated from modes of thinking and language based on philosophy and



science. I have tried to apply this approach in a pragmatic way by using it as a mechanism to reconstruct the validity claims that constitute trade discourse, in this case incorporating a type of “metadiscourse” that Habermas does not but is suggested by some of his critics.

Separating knowledge into different worlds also has the advantage of dealing with the improper blending of scientific and philosophical concepts together. Later theorists who have also adopted the nomenclature of critical theory, like the post-structuralists in France in the 1960s and 1970s, often employed scientific concepts derived from physics, biology, etc., in their philosophical analyses of modernity, e.g. Lyotard, Derrida, Deleuze and Guattari. Alan Sokal, in what has come to be known as the “Sokal affair,” reveals the extent to which critical and scientific theories are intertwined in a way that obstructs understanding and exposed the improper use of these concepts (Sokal 1996). Ironically, despite the scientific pretensions, Sokal interpreted this trend as manifesting an anti-intellectualism that is revealed in what he considers to be the “lazy editorial practices employed by certain left-wing academic journals.” Later theories like Alexander Wendt’s quantum consciousness theory also opens itself up to this kind of critique due to its unproved speculative foundation (Wendt 2006). The Habermasian approach sees science as belonging to the theoretical world of knowledge while aesthetics, politics and philosophy belongs to the hermeneutic or practical realm of knowledge. The different worlds or realms of knowledge correspond to different logics and a different process of redeeming the truth content within these worlds. By resisting the tendency to blend science and philosophy together in an improper way, this approach might suggest a tendency to compartmentalize knowledge. However, this does not result in such a strict separation because in the pragmatic conditions of political discourse, scientific, moral and practical knowledge are embedded together in the articulation of different speech acts that collectively constitute discourses, as demonstrated in the research on U.S. trade discourse for Japan and China.

The introduction of critical theory into more mainstream social scientific research can provide a

corrective for many of the distorting influences in social science research that has been colonized, to use Habermas' terminology, by the systemic imperatives of the government and multinational corporations. For example, as Pinar Bilgin and Adam David Morton have argued the “annexation of the social sciences” since the Cold War has pushed scientific research down an instrumental path funded through grants from the Defense Dept. and corporate grants like the Ford and Rockefeller Foundations, and designed primarily to formulate strategies to effectively control emerging states in the developing world (Bilgin and Morton 2002). This results in research that often decontextualizes political phenomena from the larger international and historical context, for example, overlooking the history of imperialism when designating “rogue” or “failed” states, and focuses theoretical questions on how to exercise political control over restive populations, i.e. the emphasis on “strong” versus “weak” states and the contrast of "State and Society" as opposing forces—what Bilgin and Morton refer to as the “Huntingtonian formula.” Even research that is not consciously oriented to such goals has to internalize so much of the conceptual ontology and methodology of instrumental theory that it tends to obstruct understanding rather than enhance it. The introduction of critical theory concepts into mainstream social scientific theory is the most effective antidote to these distortions by breaking social science out of the stale ideas of instrumental thinking and the individualist ontology that underlies the instrumental (or purposive-rational) paradigm.

At the same time in which the third generation of critical theorists are establishing themselves in academia and beginning their project of reconstructing critical theory in an American context, many of the theoretical insights first developed in the 1930s are finally integrated within American political science, even if the link is not always acknowledged. Critical theorists in the 1930s pioneered many of the innovations claimed by the “new institutionalism” (March and Olsen 1984) in the 1980s that seeks to distance itself from more instrumental and utilitarian theories of politics and, instead, stresses themes that have been taken up by critical theorists: the autonomy of political institutions, historical

inefficiency as opposed to functionalism, and “politics as an interpretation of life” (March and Olsen p. 741).

In many regards, the insights of the new institutionalism are drawn from applying a dialectical approach (characteristic of critical theory) to the static, formal models developed in political science in the preceding decades. For example, “the state is not only affected by society but also affects it,” (March and Olsen p. 738) reveal the insight that the state does not function like a “black box” or is not wholly “exogenous” in the *old* institutionalism, but at least “partly determined endogenously” (p. 739). Political preferences are not given, but determined through a Hegelian dialectic in the new institutionalism, emphasizing reason, meaning and experience: “The new institutionalism, in company with most research on preferences, argues that preferences and meanings develop in politics, as in the rest of life, through a combination of education, indoctrination, and experience. They are neither stable nor exogenous” (p. 739). Similarly, political leadership is no longer conceived as a broker of information and builder of coalitions, now “leaders interact with other leaders and are co-opted into new beliefs and commitments. The leadership role is that of an educator, stimulating and accepting changing worldviews, redefining meanings, stimulating commitments. Such a view is more conspicuous in the ideas of the new institutionalism” (p. 739).

The further development of the “new” institutionalism has spawned different methodological approaches to political science, one of the most prevalent being rational choice and historical institutionalism (Hall and Taylor 1996; Pierson and Skocpol 2002). Again, the emphasis is on the dialectic between the actor and the institutional context, specifically the way in which institutions foster certain interpretations:

What do institutions do? From this perspective, institutions provide moral or cognitive templates for interpretation and action. The individual is seen as an entity deeply embedded in a world of institutions, composed of symbols, scripts and routines, which provide the filters for interpretation, of both the situation and oneself, out of which a course of action is constructed. Not only do institutions provide strategically-useful information, they also affect the very

identities, self-images and preferences of the actors (Hall and Taylor p. 939).

Furthermore, with historical institutional studies, as the name suggests, the emphasis is on the development of institutions in a specific historical context. Typically, this kind of analysis is structured around four themes according to Pierson and Skocpol: 1) big, substantive topics; 2) is used to identify asymmetries of power within an institutional context; 3) accounts for socio-economic and cultural factors; 4) and finally, understands institutional development in terms of path dependency which “refers to the dynamics of self-reinforcing or positive feedback processes in a political system” (Pierson and Skocpol p. 699). The concept of change in path dependent accounts are in turn related to the “law of unintended consequences” and the idea of critical junctures, “i.e. moments when substantial institutional change takes place thereby creating a ‘branching point’ from which historical development moves onto a new path” (Hall and Taylor p. 942).

Despite the influence of more dialectical approaches to social science on the “new” institutionalism, the link between the two is seldom acknowledged. In part, this is because other theoretical influences like Foucauldian “power analytics” and “genealogy” provide similar analytical tools (Foucault 1984; Dreyfuss and Rabinow 1983). This and the fact that it took almost fifty years for these ideas to be incorporated into mainstream American political science, again, suggests the “cultural lag” or “delayed transmission” of Critical Theory in the U.S. It is also suggestive of a gap between political theory and the other sub-fields of political science as it is usually defined in the U.S.

The transmission of critical theory into American social science was facilitated by the “third generation” of critical theorists who helped re-introduce these thinkers into American social scientific discourse. Their work consisted primarily of a theoretical appropriation of the Frankfurt School’s ideas into a contemporary American context. This was accomplished through various mechanisms, in some cases through translations of their works, intellectual biographies, and theoretical reconstructions of

their thought and evaluations of their theories, or through applying these theories to contemporary democratic theory, literary and aesthetic theory. In other cases through synthesizing the ideas of the Frankfurt School with other “competing” post-modernist schools of thought (Arato and Gephardt 2002; Benhabib 1990, 1992, 1994 1996; Berman 1982; Braaten 1991; Bronner 1989, 1994, 2006; Fraser 1985; Jay [1973] 1996; Kellner 1989, 1995; McCarthy, 1981, 1998; Wolin 1990, 1992, 2010). Some members of the “third generation of critical theory” have appropriated some elements of Habermas’ theory albeit most of it pre-*Theory of Communicative Action*, and have tended to focus on the notion of consensus as the grounding of all rational communication, rather than the pragmatic implications of reasonable agreement in a political setting.

Although the theoretical appropriation and translation of critical theory since the 1970s has been successful and is now more or less complete, the implementation of these ideas into practice has been inconsistent at best. Three key areas can be isolated and examined as areas where critical theory has failed: 1) Beginning in the late 1970s a conservative backlash in terms of politics, economics, and even culture swept through the G7 countries that continued to gain strength in the 1980s, 1990s, and early 2000s and has resulted in unprecedented levels of wealth inequality in the U.S. surpassing even the levels established in the 1920s. 2) Despite the application of critical theory (and other “emancipatory” post-modern theories) to democratic theory and the articulation of various models of “deliberative democracy” it has yet to stimulate a revival of democratic institutions and citizenship that have continued to decline into paralysis, impotence and polarization. 3) Critical theory has failed to arrest the process of bureaucratization in public universities, a prime example of what Jürgen Habermas refers to as “the colonization of the lifeworld,” even as the cost of college education has increased to dramatically high levels for students, at the same time as austerity conditions are imposed on school budgets. However, the diffusion of critical reason has expanded beyond the confines of the humanities and to some extent has realized the objective stressed by thinkers like Horkheimer and Habermas to

bring together empirical and normative forms of inquiry.

By applying Habermasian critical theory (derived from a speech act theory) to issues of trade policy and analyzing important trade conflicts between the U.S. and some of its major trading partners this research can help bring critical theory back into the realm of empirical social science, from its self-imposed exile in an aesthetic paradigm, and to correct the distorting effects of social science research which have been compromised by decades of association with the infamous U.S. “military-industrial complex.” This contribution takes shape in the attempt to resolve theoretical puzzles in political theory, culminating in a theoretical explanation of the relationship between political ideas and political institutions. This relationship is brought to clarity by the use of Habermasian concepts in the context of trade discourse and provides understanding and insight for the complicated dynamics between the U.S. and China, or other past conflicts like the U.S. and Japan. This also helps resolve a lingering difficulty in Habermas’ theory, namely, how to separate the different kinds of validity claims that constitute political discourse that would allow one to evaluate the rationality of discourse.

The rise of China on the world stage is in all likelihood the most important development of the 21<sup>st</sup> century, and likely to radically alter the composition of international politics and the balance of power throughout the world. Its rise brings many challenges to the U.S. Not simply in the sheer fact of a new rising power on the world stage, but in the enormous challenge to understand the implications of China’s rise. Clearly, the policies of the government are brutal and oppressive, and this does undoubtedly have an impact on the ability of China to produce exports for global consumption and explains a lot of China’s “economic miracle.” At the same time, the CCP boasts of raising hundreds of millions of people out of poverty. The ethical claim made by the government is clear: policies are tough sometimes but it has lead to good outcomes for the whole of society. This kind of Machiavellian “ends justify the means” mentality is not new, and history has shown that more often than not it is an excuse to legitimate the sovereignty of the ruling establishment, even if Machiavelli and Hobbes would argue

that the sovereign power must ultimately work to the benefit of the interests of all. If history is any indication, the forces the Chinese Communist Party has unleashed may very well come to undermine the foundation on which its claim to authority rests.

The rise of China may be a positive development for the rest of the developing world. Its increased influence in organizations, for example, like the IMF and WTO that have in the past been charged by critics as not being responsive enough to the needs of developing states is a good example of how China's rise will alter the balance of power in the world. A similar parallel can be drawn to Meiji Japan, another government obviously brutal, militaristic and authoritarian, but because of its role in the international system played a progressive role in pressuring the Allies to adopt a "racial equality clause" in the Treaty of Versailles (the motion was defeated) (LaFeber 1998). Yet, again, China's investment policies have hardly been an unmitigated blessing in Africa and other regions of the world where you see an increased Chinese presence. Probably the most challenging aspect of this dissertation is to make an argument against punitive policies for China while not becoming an apologist for authoritarianism. The most important thing to consider is the ultimate effect such punitive policies would have, and my argument, essentially, is that pursuing such policies will not benefit the people of China, nor will it benefit people in the U.S., or for that matter, people in the rest of the world. Furthermore, a strengthened U.S. economy and a commitment to working through more consensus based multilateral institutions can exert a positive force on China by integrating it more in the international system and speeding up the forces of reform in China. The concept of "soft power" is highly influential for both U.S. and Chinese leadership, but such a punitive approach by the U.S. will only undermine its own soft power, as will its denial of the need for radical structural reform of the U.S. economy since after all soft power depends on economic strength (Nye 1990).

When analyzing public discourse concerning trade conflicts with China and Japan certain conclusions can be drawn: 1) arguments for punitive protectionism cannot be rationally grounded by a

consensus that does not rely on coercion or exclusion; 2) punitive policies are advocated mainly by Democrats, organized labor, and interest groups connected to certain industrial sectors, but are increasingly becoming more of a bipartisan issue; 3) arguments for punitive policies are consistent over several decades and show no signs of alteration or revision despite its failure to attain any kind of reasonable consensus or produce substantive effects when these policies have been tried; 4) discussion of non-punitive protectionist policies, otherwise known as structural reform policies or industrial policy is marginalized and delegitimized in favor of punitive policies that limit market access to the U.S. and increase the prices of commodities. This has several consequences for trade relations between the U.S. and China, and perhaps other emerging trade partners: 5) states that do adopt industrial policy are less inclined to adapt their policies in favor of neoliberal policies favored by the U.S., and even less so as the U.S. resorts to demonizing trade partners; 6) this leads to political gridlock between the U.S. and its trading partners, both at the bilateral level, especially in the current negotiations over the TPP that China is excluded from, and also at the multilateral level reflected in conflicts in institutions like the IMF and especially the Doha Round of the WTO. 7) The irrational content of trade discourse then risks subverting the multilateral international system unless some common agreement can be made among the largest economies in the world, involving concessions from both the U.S. and China, over a fair and equitable system of global trade and finance, and here the theory of communicative action can provide a key in establishing normative principles for understanding and reasonable agreement.

1) Arguments for protection cannot be rationally grounded and results from systemic imperatives generated by interest group politics, political business cycles and electoral dynamics, in turn, constrained by the limitations of free trade norms that do not permit structural reform policies consistent with what is known as “industrial policy.” This is what Habermas terms the “colonization of the lifeworld” (Habermas [1981] 1987) Executive branch institutions like the International Trade Administration in the Department of Commerce and International Trade Commission have long been



considered to be “captured” by trade interest groups, and form one point of the “iron triangles” which result from the collusion of interest groups, the government bureaucracy, as well as Congressional committees (Ravenhill 2014). Congressional representatives urging protection and making the strongest allegations against foreign trade partners originate from electoral districts that were negatively impacted by trade, mainly in the Rust Belt states of the Mid-West and Northeast and the textile industries in the South.

2) Of the two major parties, the Democrats tended to be more consistently protectionist over both periods of time, but many prominent Republicans from both periods, e.g. Sen. Dole in the 1980s, or Sen. Graham, or Gov. Romney in the more recent past also urged for tougher trade policy. “China-bashing” may be one of the few bi-partisan areas left for agreement in an increasingly fractured, and dysfunctional partisan political system. The lack of empirical grounding for protectionist arguments tended to be associated with a hostile attitude towards international institutions especially from Democrats, e.g. referring to the WTO as a “secret court,” and combined with Republican hostility towards multilateral institutions like the U.N. reveals a growing tension between the U.S. and the maintenance of the international order of which it is the chief architect.

3) Arguments for punitive protectionism are remarkably consistent over time. There is little variation in the tone, the themes, and in many cases the content of the arguments used to argue for protection against Japan in the 1980s and China in the present. Habermas also defines communicative reason as possessing a capacity for learning and self-correction, but little evidence of that can be found in the discourse of protectionism (Habermas 1984). Despite the repeated failures of policies over several decades designed to narrow the trade deficit, or increase market access, there is little adaptation of the arguments used. The country being targeted is defined as a threat, as deliberately acting in a way to cause harm, to justify raising punitive tariffs on foreign industries that compete with domestic industries. In instances where the case for tariffs, or other sanctions, or currency revaluation is

translated into concrete policy it has failed to achieve its objectives and ends up causing numerous unintended consequences that are often damaging to both countries. The lack of a capacity for self-correction also reveals the irrationality of these arguments.

4) Arguments for tariffs act as a substitute for more progressive alternatives that would be more consistent with the industrial policies and institutions of more coordinated market economies than the U.S. Many foreign industries are able to sell their products at more competitive prices because wages are lower, or they have easier access to finance, but also because they are not burdened with high healthcare and pension costs. In the early 1980s, in the last days of the Carter administration and the first few years of the Reagan administration industrial policy was discussed in U.S. media discourse, but disappeared by the 1984 presidential election as conservative Republicans increasingly began to dominate the agenda and Democrats moved to the right to follow. In more recent cases arguments for government assistance for healthcare and pensions for struggling American industries are made by Democrats, but take a back seat to the more frequent and more strident allegations of cheating and retaliatory tariffs. As a precondition, conflicts must be defined as an emergency or responding to a threat to justify sanctions in order to be consistent with neoliberal ideology. Paradoxically, the liberal market institutions of the U.S. increase the tendency for trade wars and sanctions because the “mobilization of bias” against more progressive alternatives that would diffuse the motivation for punitive policies (Bachrach and Baratz 1962). In the U.S. voters have to choose between protectionists who pursue short-sighted, damaging policies or “market fundamentalists” who are indifferent to the struggles of working class people today, no other options are available (Stiglitz 2002).

5) The perception of illegitimacy of Japanese and Chinese trade practices on the part of U.S. policymakers results, in part, from the differing economic models in foreign countries. Practices that are condoned in a statist economy appear illegitimate from the perspective of a liberal market economy, e.g. the perception that Japanese and Chinese industries are “predatory,” “manipulating,” or otherwise

“cheating,” resulting in dumping, undervalued currencies, or unfair market access barriers. To an extent, these perceptions are probably sincere since they originate from a perspective where the institutions of a more liberal market are the norm. This is not to deny either that claims of abusive practices on the part of Japan or China is entirely unfounded. At the same time, pressure exerted on foreign trade partners can then be understood as helping to consolidate the neoliberal paradigm by attempting to bring the practices of states like Japan and China (and all other U.S. trade partners) into conformity with the “Washington Consensus” (Williamson 1990, 2004). The real endgame of these conflicts is to exert enough pressure on these states, using market access to the U.S. as a cudgel, that they will reform their systems according to liberal market values. Hirschman in the 1940s first noted the “influence effect” of trade that gives more developed economies power over less developed economies through withholding market access (Hirschmann 1945). These kinds of tactics are consistent with practices that Nye and Keohane identify as “complex interdependence” which stipulates, in part, that power will increasingly be exercised through non-military means using economic sanctions and “soft power” that emphasizes persuasion and negotiation (Nye and Keohane 1977; Nye 1990). Pressure to bring states into conformity can be seen as another systemic imperative at the international level, and is consistent with what Hardt and Negri term “empire” (Hardt and Negri 2000).

Pressure to conform is met by resistance from states that have resisted most overtures to reform their systems at the pace expected by the U.S. From the perspective of Asian states, the developmental state is still a viable model for development, even if calls for a “Beijing consensus” are premature (Johnson 1982; Ramo 2004). Attempts to dismantle the developmental state as prescribed by the Washington Consensus will most likely not be heeded. Most East Asian states agree that at a certain level of development, gradually, the developmental state should be liberalized, but again, at a pace that does not conform to U.S. expectations. In many regards, tensions between the U.S. and its trading partners originate not in the acceptance of a state-centric model over a liberal model of development

but more the pace in which a developmental state gradually liberalizes itself. The success of the Japanese developmental state has served as the primary model for developmental states in the rest of the region. Stephen Haggard notably explored this in contrast to the Latin American countries that adhered, or were forced to adhere, more closely to U.S. policy to their detriment, growing significantly slower than East Asian economies (Haggard 1990). The failure of the Russian “shock therapy” approach in the 1990s has also reinforced resistance to the neoliberal paradigm, even more in the aftermath of the Asian financial crisis in 1997-98 and, again, after the 2008 global crash that more or less discredited the Washington Consensus paradigm in the eyes of most foreign governments in East Asia. From the perspective of East Asian policymakers these crises originated in the rapid pace of liberal reforms that introduced excessive volatility into the exchange rates and stock values of Asian economies. As a result, most East Asian economic policymakers have been much more cautious regarding the pace in which liberal reforms are introduced.

The rapid pace of reform prescribed by the U.S. will not be heeded, but the example of Japan also furnishes cautionary advice for delaying reform too long. The success of the Japanese developmental state in the 1950s-1970s created a positive model for emulation for the rest of the region, but the economic failures of the Japanese state since the 1990s also shows the negative implications of the developmental state once a certain level of development has been reached (Ichimura 2012). As social groups gain more influence as a result of rapid economic growth, the state loses what Peter Evans calls its “embedded autonomy” and becomes more ensnared in the influence of interest groups, leading to distorted policies that corrupt the developmental principles of the state and lead to rent-seeking behavior and protection for uncompetitive industries (Evans 1995). Corruption in China is probably even more of a severe issue than in Japan, another consequence of the centralized state. So, on the question of development the perspective of Asian states sees the solution to this problem as a very careful balancing act, industrial policies are necessary for developing states but must be eased, or, at

least adapted as the state reaches higher levels of development. History furnishes many examples of underdeveloped states that ignored the necessity of industrial policy, but also furnishes examples of newly industrializing states that put off gradual liberalization too long. Taiwan and South Korea are perhaps even better examples of developmental states that were able to liberalize before incurring the costs of a developmental state at higher levels of development, while still maintaining some aspects of a coordinated economy that can still be beneficial. However, this presumes that attempts to liberalize will be acknowledged by protectionist interests. Even when states initiate reforms this often does not penetrate through the ideological veil of trade discourse, e.g. even after China's currency began to appreciate in 2005 it barely registered in the repeated calls to label China a currency manipulator.

6) The breakdown in trade negotiations between major economic and military powers like the U.S. and China can have potentially severe consequences for both countries and the rest of the world. The failure to adopt a more cooperative institutional framework for resolving trade conflicts among the U.S., China, as well as Japan is harmful to all. The stale recycling of arguments against foreign trade not only stalls the process of reform and adaptation necessary for the U.S. to develop a strong and sustainable economy, but risks breaking down the multilateral system that maintains the global economy. Evidence of this can already be seen in the reemergence of regional blocs like the TPP in response to stalled talks within the WTO. At the same time, the TPP is seen by some as an attempt to contain Chinese regional power and "punish" it for not conforming to U.S. trade rules. At the most extreme level, a "Cold War II" future scenario can be imagined between the U.S. and China waging war on multiple political and economic arenas, through proxies, and including new forms of conflict like cyber-warfare, as well as state sponsored terrorism and the omnipresent threat of nuclear war.

7) The principles that make communication possible, as Habermas argues, when consciously grasped as universal principles create a shared normative standard that grounds the legitimacy of politics on agreement, something already presupposed by democratic and market institutions. This in

turn creates a new rational perspective not bound by the prior model of purposive-rationality. A transformed perspective regarding the norms of trade practices could provide the kind of “critical juncture” that historical institutionalists argue is necessary to change the trajectory of historical paths that work to obstruct the development of more effective policies for dealing with social costs of trade, and allow major trading partners to find common ground for agreement rather than talking past each other, as occurs now. In conventional historical institutional accounts, a severe crisis is the usual precondition for a critical juncture to alter the established, self-reinforcing historical paths. Analysis of trade discourse suggests a more introspective means of generating a critical juncture that can alter dominant historical paths and the power configurations that reinforce these paths. A transformed perspective could also help to diffuse the tensions between the U.S. and its major trading partners, and erases the negative stigma of industrial policy. To demonstrate the need for a new perspective requires showing the inadequacy of existing perspectives. Demonstrating the irrationality of the perspective favoring punitive protection then helps contribute to the realization of the need for new ways of thinking about trade, political economy and international relations.

## **Appendix A: Japan**

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