Will U.S. trade pressure actually change China’s industrial policy?

By Yeling Tan
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The Trump administration is using a variety of tools — unilateral tariffs most prominently, but also World Trade Organization dispute cases and revisions to national guidelines on foreign investment — to put pressure on the Chinese government on trade. The U.S. government also took aim at China’s domestic policies, including Made in China 2025 (MiC 2025) guidelines and technology transfer provisions in joint venture agreements.

Beijing is reportedly considering revisions to MiC 2025, but it’s unlikely the U.S. pressure will result in substantial changes to Chinese industrial policy. My research on how China has responded to such pressures in the past can help explain why.

The U.S. took a similar approach with the Japanese economy – 30 years ago

The Trump administration’s unilateral actions are not unprecedented. Indeed, they strongly resemble the George H.W. Bush administration’s use of “Super 301” provisions to threaten sanctions against an economically ascendant Japan.

The Bush administration in the late 1980s saw the Japanese economy as rigged against U.S. firms, and used Super 301 — special unilateral measures — to pressure Japan to change its domestic economic policies. In the U.S.-Japan Structural Impediments Initiative (SII) talks, U.S. negotiators demanded Japan implement sweeping domestic reforms targeted at market barriers created by the informal practices of its corporate groups (keiretsu), specific exclusionary business measures as well as policies related to public investment, land use and goods distribution.

Japan agreed to some but not all of the demands. Analysts saw the SII concessions as a successful case of “gaiatsu,” or external pressure. SII created an impetus for change by shifting the domestic balance of power — to undermine entrenched interests (within and outside the government) that were blocking reforms.

Will this approach also work against China?

The Japan example does not mean the current U.S. trade war with China is likely to produce similar concessions. Recent reports point out China might be starting to play down MiC 2025, but State Council policy continues to emphasize industrial upgrading, high-tech industries and indigenous innovation.

Why might the Japanese and Chinese responses to U.S. pressure diverge? Here it is useful to distinguish...
between two different dynamics that external pressure can unleash. Political scientists are familiar with the mechanics of the first dynamic — when external pressure increases the probability of change by creating political space to expand the base of supportive domestic constituents. This generates positive feedback loops, where new domestic advocates for change emerge to reinforce the external demands.

But the second dynamic is less widely understood. External pressure can also result in less political space for domestic constituents to express their support, instead emboldening policymakers or groups that are opposed to reform. In this scenario, external pressure generates negative feedback loops by strengthening domestic opposition to the very change that’s being demanded. The difference between the two results isn’t about the demands being made, but rather the overarching strategic context and how domestic policymakers and interest groups interpret that context.

The U.S. government’s SII pressure on Japan, while driven by concerns over Japan’s economic rise, was nonetheless undergirded by the assurance of a security alliance. Not everyone in Japan saw the U.S. pressure as hostile aggression. Rather, the pressure expanded political space for previously sidelined domestic constituents to make their presence felt in the negotiations. For instance, pro-spending agencies and politicians used U.S. pressure as leverage to push for an end to Japan’s policy of fiscal prudence.

Here’s how China is likely to see the U.S. pressure

In contrast, the current U.S. trade war is unlikely to result in substantive concessions anytime soon. Here’s why: Chinese tend to see U.S. demands as part of a broader containment strategy. It is not that there is zero support within China for the types of reforms the U.S. government demands — indeed, many of the U.S. Trade Representative’s demands are changes that reformists and technocrats within the Chinese party-state have long advocated.

However, the current U.S. pressure on trade leaves pro-reform officials or agencies little room to maneuver within China. None of them can step forward to support the U.S. demands for fear of being portrayed as betraying the nation and caving to foreign aggression.

This means the current U.S. demands effectively strengthen the hand of Chinese agencies and officials who oppose market liberalization — leading to intensified calls within China to decouple and indigenize the supply chains that link the Chinese and U.S. economies together. This type of negative feedback loop makes the fears of the U.S. government a self-fulfilling prophecy.

China has responded differently in the past

It was partly a recognition of this self-fulfilling dynamic that motivated President Bill Clinton to support China’s membership in the World Trade Organization (WTO) in the 1990s. He acknowledged China could very well choose to go down a more hostile or nationalistic path in the future but cautioned “we should not make it more likely that China will choose this path by acting as if that decision has already been made.”
Consequently, while the United States exerted tremendous pressure on China to undertake substantial domestic restructuring as a condition of WTO accession, this pressure came in the broader context of an engagement strategy. This meant that U.S. external pressure helped open political space for reformist agencies within the Chinese state to push their agenda forward, generating a positive feedback loop.

In the late 1990s, Premier Zhu Rongji openly argued that increased market competition from the WTO would boost Chinese economic development. Reformist officials supported WTO entry by pointing to the benefits that membership would bring to China. These benefits included the ability of China to use multilateral rules to defend its interests internationally, as it has since done many times. These arguments led China to enact sweeping domestic reforms when it joined the WTO in 2001.

Trade pressure on China is therefore far from historically unprecedented, but as long as those in China see it as part of a broader external effort to weaken or curtail the country, it is unlikely to result in the kinds of deep structural concessions that the United States has won in previous battles.

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