

*Benefits for Bystanders? Effects of the Japan-South Korea and the US-China Trade Dispute for Japan (2018-2020)*

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**Abstract**

The China-US and the Japan-South Korea trade dispute since 2018 and 2019 involve Japan's three top trading partners. This paper provides a comparative analysis of economic spillovers for Japan from both disputes between 2018 and 2020. The author argues that the China-US dispute entailed positive and negative spillovers for Japan as a bystander. As a participant, Japan faced negative spillovers from the Japan-South Korea dispute. Companies with China or US exposure experienced direct effects from the China-US trade dispute, e.g., declining sales and stock prices. Others benefitted from increasing demands and trade diversion effects. For the Japan-South Korea trade dispute, direct effects included boycotts, export problems, and declining tourist numbers. Indirect effects from both disputes include risk hedging measures by Japanese companies searching for new locations and partnerships, as well as Japan's government balancing between China and the US, and increasing multilateral economic cooperation. The analysis shows that the concepts of direct and indirect effects need to be modified to apply them to the China-US and Japan-South Korea trade dispute. Direct effects need to include positive spillovers in the context of Japan witnessing the China-US dispute. For indirect effects, not only risk hedging measures by economic actors, but also by political actors need to be included. This study of spillovers for Japan as a participant and bystander in two trade disputes allows general conclusions about potential economic risks of trade disputes for participants and bystanders. The analysis draws on theoretical findings by Baldwin and Kapstein (2020), Kawashima (2019), and others.

Keywords: Trade Dispute, Japan-South Korea Relations, China-US Relations, Japan-US Relations, Economic Conflict, Trade War, Economic Security, Political Conflict, Boycott, Tourism, Risk Hedging, Balancing, Multilateral Economic Cooperation

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## **Introduction**

Since the onset of the China-US trade dispute in 2018, trade disputes have been widely discussed by the media. This paper analyzes and compares economic spillovers of the China-US trade dispute, and the Japan-South Korea trade dispute for Japan from 2018 to 2020.

Most research about trade disputes discusses legal dispute settlement, such as Elsig et al. (2021), Tevini (2018), or Shaffer (2021). Several studies focusing on the China-US or the Japan-South Korea dispute analyze impacts on global value chains and spillovers for participants of trade disputes, e.g. Hufbauer et al. (2012), or Itakura (2019).

Other researchers focus on spillovers for bystanders of the two trade disputes, i.e., third countries or regions uninvolved in the dispute. Miura (2019) estimates the spillovers of the China-US trade dispute on economic growth of China's neighbors, Devermont and Chiang (2019) or Martin (2021) focus on negative spillovers for developing countries.

Previous research about spillovers from trade disputes has not sufficiently considered the differences between spillovers of trade disputes for participants and bystanders. This study fills a research gap by providing a comparative analysis focusing on the case of Japan, which is a participant in the trade dispute with South Korea since 2019. At the same time, Japan is a bystander of the China-US dispute since 2018, experiencing spillovers from both disputes.

This paper argues that the China-US trade dispute since 2018 has entailed both negative and positive economic spillovers for Japan. In contrast, the country has experienced negative economic spillovers from the Japan-South Korea trade dispute since 2019 as a participant. The following exemplary analysis provides general insights about potential economic risks from spillovers of trade disputes for participants and bystanders applicable to other states.

The first chapter of this paper defines trade disputes in the current China-US and Japan-South Korea context. The China-US dispute and spillovers for Japan are discussed in chapter 2, chapter 3 analyzes the Japan-South Korea dispute and spillovers for Japan.

Both disputes entailed indirect effects for Japan to be discussed in chapter 4. Firstly, Japanese companies began to seek new business partners and locations. Secondly, the Japanese government engaged in a two-fold strategy of economic statecraft that includes balancing and increasing multilateral economic cooperation. Therefore, chapter 4 argues that the concept of indirect effects of disputes needs to be modified to include not only risk hedging measures by economic actors, but also by political actors.

### **1. Defining Trade Disputes in the Current China-US and Japan-South Korea Context**

There is no fixed definition of trade disputes in IR or IPE literature, but several commonly used definitions. The following definition is applicable to the two trade disputes that will be discussed in this paper.

According to Petersmann (2003, p. 33), we can distinguish between four major categories of economic disputes. Two of the author's categories are relevant in the context of disputes between China, Japan, South Korea, and the US.

The first major category of economic disputes according to the author are “disputes over discriminatory and economically harmful border measures” (Petersmann, 2003, p. 33) that are brought to the WTO's dispute settlement system. This first category of economic disputes can be applied to the current Japanese trade dispute with South Korea, as it is characterized by Japanese export restrictions and a mutual “White List” removal of Japan and South Korea. These measures specifically target the respective other country, and were not economically beneficial. Additionally, the dispute has been brought to the WTO dispute settlement system with Korea requesting WTO consultations with Japan in September 2019. Therefore, the Japan-South Korea trade dispute fits into Petersmann's first major category of disputes and can be classified as a dispute over discriminatory and economically harmful border measures.

Petersmann's third major category of economic disputes are “high policy disputes” (Petersmann, 2003, p. 33). High policy disputes are also disputes over discriminatory and economically harmful border measures, but they also include negotiations *outside* the framework of the WTO. This latter category would be applicable to the China-US dispute since 2018. This dispute is characterized by economically harmful border measures, such as mutual tariffs that target the respective other state. Moreover, some of the restrictive measures by both parties have also been brought to the WTO dispute settlement system.

One example would be China requesting WTO consultations with the US about US tariffs on Chinese imports in April 2018. A WTO panel was formed to produce a WTO panel report in September 2020. This report stated that the US has not presented sufficient evidence of Chinese unfair trade practices. The WTO decision in favor of China is under appeal from the US side since October 2020 (WTO, October 2020).

In addition to bringing the dispute to the WTO, China and the US have been negotiating bilaterally about the dispute outside of the WTO framework. Therefore, the US-China dispute can be classified as high policy dispute, as it is characterized by negotiations within and outside the WTO framework. Finally, if Japan and South Korea started negotiations about the dispute outside the WTO framework, this dispute could also be classified as high policy dispute according to Petersmann.

## **2. The US-China Trade Dispute Since 2018**

The US-China trade dispute started with former US president Donald Trump introducing tariffs on Chinese imports to the US in March 2018 by signing a memorandum on March 22 under Section 301 of the US Trade Act of 1974, imposing 50 billion dollars of tariffs on Chinese imports (USTR, June 2018).

According to the Peterson International Economic Institute (PIIE), Chinese imports to the US were targeted with tariffs of up to 25% between July 2018 and September 2019. Whenever new US tariffs were imposed between July 2018 and September 2019, China reacted by imposing retaliation tariffs on import products from the US. According to the PIIE (2021), all tariffs and retaliation tariffs covered more than 50% of China-US bilateral trade in February 2021 (PIIE, March 16, 2021).

Despite several temporary tariff exemptions, the signing of the *Economic and Trade Agreement Between the United States of America and the People's Republic of China: Phase One* in January 2020, and an online Xi-Biden summit in November 2021, a quick solution of the dispute is not in sight. There are new import restrictions in 2021 under current US

president Joe Biden. Finally, it is unclear if China can fulfil the goals stated in the agreement, and most mutual tariffs are still in place in November 2021 (China Briefing, November 25, 2021; PIIE, March 16, 2021; PIIE, November 24, 2021).

## **2.1 Economic Spillovers for Japan from the China-US Trade Dispute (2018-2020) as a Bystander**

Japan has experienced economic spillovers for its trade dispute with South Korea, as well as for the China-US trade dispute. In the latter, Japan is a bystander, a third country not directly involved in the dispute. As the US and China are Japan's most important trading partners, their dispute affects Japan as well. It has entailed both positive and negative spillovers for Japan as a bystander.

Japanese companies have experienced direct effects as economic spillovers from the dispute. Vekasi (2014, p. 66, 99) distinguishes between direct and indirect effects as spillovers. According to the author, direct effects encompass all economic effects that can be measured and expressed in numbers. Therefore, they are directly connected to a company's bottom line and include, for example, negative impacts on trade or investments, or boycotts.

For Japan as a bystander in the US-China dispute, we can observe three types of direct effects. Negative direct effects from the dispute were declining sales and declines in stock prices of some Japanese companies. The third type of direct effects was an increase of demands and therefore sales of products for other companies.

A study by Sun et al. (July 2019) shows negative spillovers from the China-US dispute for Japanese multinational corporations (MNC). The authors found a trend of declining sales for affiliates in China of Japanese MNC between March 2018, when Trump announced the tariffs, and July 2019, especially for those that have a high exposure to trade with North America. They also find a decline in stock prices for Japanese MNCs with China-North America exposure between March 2018 and July 2019.

Moreover, the Japanese External Trade Organization (JETRO) conducted a survey of over 2000 Japanese medium-sized and big companies between November 2019 and December 2019, asking about effects from the US-China trade dispute. 20% of the respondents stated they have experienced sales declines from the trade dispute.

According to JETRO (January 10, 2020), Japanese companies that experienced effects from the dispute can be divided into two categories: companies with subsidiary companies either in the US or China, and companies with sales exposure to the US or China. These two categories of Japanese companies were affected by the mutual tariffs. Therefore, they witnessed sales declines as their products became up to 25% more expensive and less competitive on the US or Chinese market.

On the one hand, Japanese companies producing in China and then shipping their products to the US were affected by the US tariffs on China. On the other hand, the effects of Japanese companies with subsidiary companies in China have not been entirely negative. Some Japanese companies asked by JETRO replied they saw an increase of demands from Japan, and therefore experienced increasing exports to their subsidiary in China (JETRO, January 10, 2020).

In an August and September 2019 survey by Nikkei Research among more than 500 Japanese medium-sized and big companies, 45% of respondents confirmed they had seen negative impacts on their profits from the US-China trade dispute. 6% replied their profits were strongly affected in a negative way (Kajimoto, September 12, 2021).

In contrast, according to UNCTAD (November 5, 2019), several Japanese companies in the chemical industry and the machinery sector experienced positive spillovers from an increase of exports to the US. The authors find trade diversion effects from the tariffs, i.e., former Chinese exports, especially for machinery and chemicals, have been replaced by imports to the US from Japan. This caused positive spillovers, namely, increasing profits, for Japanese companies in these specific sectors (UNCTAD, November 5, 2019).

All in all, we could observe negative and positive spillovers from the US-China trade dispute for Japanese companies with exposure to China and/or the US. Whether a specific Japanese company experienced positive or negative effects that directly affected its bottom line, depended on the type of the respective company and its industry sector.

### **3. The Japan-South Korea Trade Dispute Since 2019**

The political context of the Japan-South Korea dispute is a continued debate about war reparations from Japan to South Korea that flared up again in recent years. In October 2018, the South Korean Supreme Court ruled that Japanese companies, e.g. Nippon Seitetsu, should pay reparations for Korean forced labor during World War II.

In June 2019, the Ministry of Foreign Affairs of South Korea suggested that both Japanese and South Korean companies should pay reparations. Japan rejected both of that, citing Japanese reparation payments to South Korea that were made in 1965, when both countries signed the *Treaty on Basic Relations between Japan and the Republic of Korea*.

Additionally, Japan introduced export restrictions to South Korea. These restrictions were placed on three semiconductor production materials, i.e., fluorinated polyimide, photoresist, and hydrogen fluoride. The June 2019 restrictions marked the beginning of this dispute.

South Korea removed Japan from its “White List” of preferred trading partners in August 2019, Japan did the same in September 2019 (METI, April 23, 2021; Reuters, June 20, 2019). South Korea requested WTO consultations in 2019. They could not resolve the dispute, and a WTO panel could not yet be formed (WTO, October 2020).

Japanese and South Korean business representatives held virtual talks in November 2021. They published a joint statement and agreed to meet personally after the corona pandemic, but have not made concrete plans (Yahoo News Japan, November 2, 2021). However, with the WTO panel to be formed, no bilateral negotiations between the two governments, and Japanese export restrictions still in place as of November 2021, the dispute is unlikely to be resolved quickly.

#### **3.1 Spillovers for Japan from the Japan-South Korea Trade Dispute (2019-2020) as a Participant**

Kawashima (September 4, 2019) emphasizes that Japan’s export restrictions and Japan’s “White List” removal of South Korea only imply longer export procedures as governmental

licensing is required for each shipment. The author points out that South Korea not being on the “White List” simply means that Japanese exports to the country have to go through the same procedures as exports to China and other Asian neighbors that are also not on the list (Kawashima, September 4, 2019).

In this dispute, we could observe Japan’s export restrictions and Japan’s “White List” removal of South Korea as two measures of Japanese economic statecraft towards South Korea. These two economic sanctions can be classified as “expressive bargaining behavior” according to Baldwin and Kapstein (2020, p. 100-102). They define the concept as follows: “sanctions may be intended to serve as a warning to the offending state or to other states that similar actions in the future will be punished” (Baldwin and Kapstein, 2020, p. 100).

This concept can be applied to Japan’s measures towards South Korea. They are primarily sanctions functioning as warning signals to show dissatisfaction with South Korean reparation demands. The measures are a warning signal rather than an action to cause actual economic damage for South Korea. Regardless of Japan’s intentions for its expressive bargaining behavior, the country has experienced spillovers from the Japan-South Korea trade dispute. Other than for the China-South Korea trade dispute, Japan is involved in this dispute as a participant.

For spillovers of the Japan-South Korea dispute, we can observe three types of direct effects: boycotts of Japanese products in South Korea, problems with Japanese exports to South Korea, and declining South Korean tourist numbers to Japan. The first direct effect of the Japan-South Korea trade dispute were temporary boycotts of Japanese products in South Korea. As a second type of direct effects, the dispute also entailed declined and delayed Japanese exports to South Korea: From July to August 2019, Japanese exports of materials used for semiconductor production, specifically fluorinated polyimide, decreased by 84%. Additionally, Japanese overall exports to South Korea declined by 8% from July to August 2019 (Yahoo News Japan, November 11, 2019).

As the Japanese “White List” removal means that these materials can only be exported to Korea if every single shipment receives governmental permission, we could observe Japanese exports of semiconductor production materials to South Korea slowing down. In October 2019, only 7 shipments of semiconductor production materials received governmental permission.

According to interviews with business representatives by Nikkei xTECH in fall 2019, governmental permission for Japanese companies to export these goods to South Korea is usually granted. Nonetheless, additional governmental licensing means longer export procedures (Nikkei xTECH, October 2, 2019).

As a third type of direct effects of the Japan-South Korea trade dispute since 2019, we can observe declining South Korean tourist numbers to Japan. According to the Japan National Tourist Organization (January 17, 2020), the number of South Korean tourist numbers to Japan has declined from 2018 to 2019, with 7.5 million South Korean tourists visiting Japan in 2018, and only 5,6 million tourists in 2019.

This decline becomes even more evident when considering monthly tourist numbers. JNTO (January 17, 2020) states that the situation of Japan with South Korea, and the reduced number of ferries and flights because of the trade dispute is responsible for declining tourist

numbers from July 2019. From the start of the dispute in July 2019 to November 2019, South Korean tourist numbers steadily declined from about 560.000 visitors in July to about 200.000 visitors in November (JNTO, January 17, 2020).

As discussed above, we could observe direct economic effects on Japanese semiconductor production materials in fall 2019. However, according to Teretō News (September 15, 2020) we could see a 78% increase of the export of Japanese semiconductor production materials from Japan to South Korea when comparing the period between January 2020 and July 2020 to the same period in 2019. Despite statements by the current South Korean president Jae-in Moon that the country will take measures to reduce dependence on Japan regarding semiconductor production materials, exports of relevant materials have only experienced a significant decrease in fall 2019.

In contrast to short-term effects on exports, it is unknown when the number of South Korean tourists to Japan will recover, especially since Japan decided to prohibit the entry of foreign tourists from March 2020 because of the global pandemic. According to JNTO (November 2021), South Korean tourist numbers continued to decline by 60% in December 2019 as compared to December 2018. They also declined by 60% in January 2020, and by 80% in February 2020, as compared to respectively January and February 2019 (JNTO, November 2021). Nonetheless, it is unclear how tourist numbers would have developed without the global pandemic and the Japanese entry ban.

#### **4. Indirect Effects**

After discussing direct effects from the China-US and the Japan-South Korea dispute, this chapter will argue that both disputes entailed indirect effects for Japan as well. Economic consequences of disputes that cannot be measured in numbers and that are not directly connected to a companies' bottom line are defined by Vekasi (2014, p. 66, 99) as indirect effects.

Vekasi (2014, p. 66, 99) emphasizes that indirect effects encompass all events that show Japanese economic actors are losing their trust in a profitable business environment with another state. Indirect effects also include risk hedging measures that are employed to avoid direct effects. Furthermore, indirect effects include missed business opportunities, such as or cancellations or postponement of business events, business trips, negotiations, meetings, or contracts not being signed or delayed because of a dispute.

##### **4.1 Seeking New Business Partners and Locations**

As mentioned before, Japan has experienced direct economic effects from the Japan-South Korea trade dispute as a participant in the dispute. Equally, the Japan-South Korea trade dispute entailed indirect effects for Japan.

Because of the 2019 export restrictions for Japanese semiconductor materials, Japanese companies, such as Tokyo Electron and Lasertech, have increased efforts to increase their presence on markets in Europe or the US, and establish new markets in Europe to reduce their dependence on the South Korean market. Moreover, they tried to establish new business partnerships for research and development with European semiconductor manufacturers and research organizations, such as the Interuniversity Microelectronics Centre (imec), a research center in Belgium (The Economist, September 22, 2021). These risk-hedging measures of

Japanese companies are examples for indirect effects for Japan from the Japan-South Korea dispute. They show Japanese companies' new efforts to reduce their economic dependence on the South Korean market, and to seek alternatives to South Korea as a partner in semiconductor research and development.

Another point is that several Japanese companies have reshored, moved, or newly offshored a part of their production or supply chains to avoid direct effects from both trade disputes discussed in this paper. According to JETRO (January 10, 2020), some Japanese companies reshored production back to Japan, or moved production or parts of their supply chain to South Korea, Thailand, Vietnam, etc. Several companies have engaged in more than one of the above relocations as risk hedging measures to prevent direct negative effects from the trade disputes.

One example for reshoring and moving production out of China is Shibaura Machine co., ltd. The company moved its production of injection molding machines from China to Japan and Thailand in October 2018. The company told JETRO they made this decision because their products had been targeted by Trump's tariffs when exporting to the US (JETRO, January 10, 2020). To avoid direct effects of sales drops because of the tariffs, they decided to take this risk hedging measure.

Another example is the Japanese company Mitsubishi Electric. In fall 2019, they have reshored production for machine tools manufactured for the US market to avoid the tariffs on Chinese products imported to the US. At the same time, the company has outsourced production to China for those machine tools directed to all markets other than the US (JETRO, January 10, 2020).

## **4.2 Balancing**

The previous section discussed how Japanese economic actors engaged in risk hedging measures as indirect effects of both trade disputes. This section will argue that not only economic actors have pursued risk hedging measures, but also the Japanese government. As an indirect effect, the spillovers motivated a two-fold strategy of Japanese economic statecraft since 2018.

On the one hand, this strategy consists of the Japanese government's efforts to balance between its most important economic partners by engaging both China and the US, and pursuing closer economic relations with both, without choosing one of the two parties. On the other hand, Japan's government has stepped efforts to increase multilateral economic cooperation including multilateral frameworks without the US, China, or South Korea, to mitigate spillovers from the trade disputes. To support the claim that Japan has increasingly engaged China as well as the US since spring 2018, this section will argue that one could observe several exemplary measures.

Japanese political relations to China have suddenly taken a positive turn in spring 2018. Japan's rapprochement with the PRC coincides with the beginning of the US-China trade dispute. More precisely, shortly after Trump announced 25% tariffs on Chinese imports on April 3, 2018, former Japanese Prime Minister Shinzō Abe hosted the Sino-Japanese high-level economic dialogue in Tokyo on April 14, 2018. With difficult Sino-Japanese relations since fall 2010, this dialogue was held for the first time after 8 years.

Chinese Foreign Minister Yi Wang has also made a trip to Japan to attend the economic dialogue. Equally, this was the first time for a Chinese foreign minister to be welcomed to Japan after 8 years. Chinese Premier of the State Council, Kèqiáng Lǐ, was also invited to Japan on this occasion, and visited Japan for the Japan-China Summit Meeting held by Abe in May 2018. There was also the first Abe-Xí telephone conversation in May 2018 (MOFA, May 2018; Nikkei Asian Review, April 23, 2018). Based on the agreements at the May 2018 summit, the Japan Bank for International Cooperation signed the *Memorandum of Understanding on Business Cooperation in Third Countries* with the China Development Bank in October 2018 (JBIC, October 26, 2018). Abe also visited China in October 2018. He agreed to participate in China's Belt and Road Initiative (BRI) to cooperate with infrastructure building in other Asian countries. Japanese delegates visited China for the BRI forum in 2019, unlike delegates from other countries, e.g. Australia, the US, or India, that did not follow the Chinese invitation to the forum.

This increase of political and economic exchange can be interpreted as a sign that the relationship between Japan and China has not only quickly improved in spring 2018, but also that Japan has made clear efforts to engage China as an economic and political partner since that time by responding to all Chinese initiatives. Nonetheless, according to Okano-Heijmans (December 2, 2019), Japanese engagement of China as an economic partner, e.g., within the framework of the BRI, remains conditional. For instance, Japan sent the heads of several business federations to the BRI forum in China in 2018 and 2019. In 2019, the Secretary General of the LDP, and the Vice Minister of Trade and Industry attended, but the Chinese request that Japan did not follow had been to send higher-level representatives from the Cabinet Office (Okano-Heijmans, December 2, 2019).

While engaging China economically and politically since the start of the China-US dispute, Japan demonstrated that it places high emphasis to engage the US as an economic partner at the same time. Whereas Japan and China agree they oppose US tariffs since 2018, Abe has also frequently met with Trump at the same time to maintain an uninterrupted political dialogue. According to Smith (May 23, 2019), Abe and Trump had more than 40 conversations on the phone and in person until May 2019, which is a record of conversations between the Japanese and the US heads of state.

One of several Trump visits to Japan in May 2019 was especially symbolic, when he visited the US naval base in Yokosuka, Tokyo. Abe gave Trump a tour of Japan's largest warship at the time, the Izumo-class helicopter carrier JS Kaga. Trump was also received by the Japanese emperor and became the first state leader to meet emperor Naruhito. How Trump was welcomed demonstrated the importance Japan placed on the alliance with the US (Gady, May 28, 2019).

Moreover, a new Japan-US trade agreement was announced when Abe and Trump met in August 2019 at the G7 summit. The *U.S.-Japan Trade Agreement (USJTA)* was signed in September 2019 and went into effect in January 2020 (Nikkei Shinbun, December 4, 2019; The Mainichi, August 26, 2019).

Abe's successor Yoshihide Suga from September 2019 also carefully engaged China and the US with a stronger focus on the latter. While Suga's first state visit was neither to China nor the US, but to Vietnam, Suga had a phone conversation with Xí in September 2019, and hosted US Secretary of State, Mike Pompeo, a month later (Nikkei Asia, October 28, 2020).

All in all, Japan and the US have maintained a close political dialogue in recent years. This will likely continue under the current Japanese Prime Minister since October 2021, Fumio Kishida. With Kishida's personal diplomatic ties to the US from his time as longest-serving Foreign Minister of Japan, Japan-US relations can be expected to strengthen, as opposed to Abe's and Suga's more careful approach to balance and engage China as well (Akimoto, September 7, 2021).

### **4.3 Multilateral Economic Cooperation**

Since 2018, the Japanese government has also stepped up multilateral economic cooperation as the second part of its strategy to hedge economic risks from the two trade disputes. The efforts to increase multilateral economic cooperation include multilateral frameworks excluding the US, China, or South Korea, to mitigate spillovers from the trade disputes.

Firstly, Japan signed the *Japan-EU Economic Partnership Agreement* (EPA) in July 2018, shortly after the onset of the China-US dispute. Secondly, after the US retreat from the TPP in 2017, Japan has been an important driving force for renegotiations over the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* (CPTPP, or TPP-11) concluded in October 2018. It includes eleven countries, e.g. Australia, Canada, Malaysia, Vietnam, etc., making the CPTPP one of the largest free trade areas on the globe (Naikaku Kanbō, October 2021). Notably, this agreement for which Japan was eager to restart negotiations excludes the US, China, and South Korea.

Nonetheless, Japan also participates in multilateral forums that include some of these countries, such as the RCEP (*Regional Comprehensive Economic Partnership*) signed in November 2020. This free trade agreement includes 16 states, among them China and South Korea, forming the biggest trading bloc in the world. According to the ASEAN Secretariat (2019), one of the benefits of the RCEP is to mitigate economic losses resulting from the US-China trade dispute for all states except the US and China. They estimate that RCEP and CPTPP together can help to counterbalance against negative economic spillovers from the U.S.-China trade dispute.

As Japan is among the countries with close economic relations to China and the US, and has also experienced spillovers from the trade dispute, mitigating spillovers is a relevant concern for the country. This concern is one of the reasons for Japan to participate in this trade agreement, in addition to the Japanese participation in the CPTPP (The ASEAN Secretariat, 2019).

### **Conclusions**

The Japan-South Korea and the China-US trade dispute remain unresolved as of November 2021. As the scope of this paper is limited to spillovers for Japan from 2018 to 2020, follow-up studies are necessary to estimate potential long-term economic effects of the disputes, or the impact on other participants and bystanders.

Nevertheless, general conclusions about spillovers from trade disputes for participants and bystanders can be drawn from this exemplary analysis. This discussion of Japan as a participant and bystander in two trade disputes revealed that while experiencing negative spillovers as a participant, Japan partly benefitted as a bystander.

With Japan as a bystander in the US-China trade dispute, most Japanese companies affected experienced negative spillovers, such as declining sales or stock prices from the US-China tariffs. However, others benefitted economically, experiencing increasing sales because of trade diversion effects from US-China tariffs.

Vekasi's (2019) definition of direct effects as economic spillovers from disputes does not include positive effects on a company's bottom line. Since several Japanese companies have experienced positive spillovers, the definition needs to be modified in the context of Japan as a bystander of the China-US dispute. In contrast, as a participant in the Japan-South Korea trade dispute, we can find negative spillovers for Japan, e.g. boycotts, delays or declines on Japanese exports, and declining South Korean tourist numbers.

Among the spillovers of the two trade disputes for Japan, one could observe indirect effects as well: Japanese companies and the government have taken risk hedging measures to avoid direct effects. Japanese companies have increased their efforts to seek new business partners and locations, while the Japanese government has employed a two-fold strategy of economic statecraft that consisted of balancing between China and the US, as well as increasing multilateral economic cooperation.

The analysis showed that Vekasi's (2019) concept of indirect effects from disputes should not only include risk hedging measures by economic actors, but also by political actors. It is necessary to broaden the concept to include governmental measures of economic statecraft to avoid negative spillovers from trade disputes.

Lastly, it is unknown when the trade disputes will be resolved, and whether a resolution can be achieved by China-US bilateral negotiations or the Japan-South Korea WTO panel. However, given the background of the US-China great power rivalry and Japan-South Korea historical differences, similar disputes and spillovers are likely to occur again in the future.

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