

Old Wine in New Bottles

What the 1980s Record on Managed Trade Means for the Proposed US-China Board of Trade

Simon J. Evenett¹

IMD Business School and The St Gallen Endowment

14 May 2026

Abstract

As the United States proposes a bilateral Board of Trade to govern its commercial relationship with China, the empirical record of managed trade arrangements that the United States negotiated with Japan in the 1980s provides a relevant precedent. That record, drawn from economic research and official government sources, is consistent: managed trade measures raised US consumer prices, transferred excess profits to Japanese firms, produced negligible employment gains in the United States, had little impact on the bilateral trade deficit, damaged downstream U.S. industries, and outlasted the rationale used to justify them. Returning to such approaches with a counterpart that has greater economic weight and undoubted capacity for retaliation is even less likely to succeed. Still, the challenge remains of how to govern trade relations between two nations competing for global primacy.

1. The Proposal (Such as It Is)

The creation of a bilateral 'Board of Trade' to determine the terms upon which the United States and China sell "non-sensitive" goods to each other is on the cards at the ongoing summit between Presidents Trump and Xi in Beijing.²

Unlike the Trump Administration's Board of Peace, little is known at this time about the institutional objectives and structure of any Board of Trade. Still, Reuters reported on 15 March 2026 that at Sino-U.S. talks in Paris "One of the sources said that the Board of Trade...would be aimed at finding products and sectors where the U.S. and China could increase trade in a balanced way without compromising each other's national security or critical supply chains." On 31 March 2026, in an [interview](#) on Bloomberg Television, the United States Trade Representative Ambassador Jamieson Greer stated that "establishing that kind of mechanism at the leaders' meeting and then going through a process of figuring out how to optimize trade with each other, that's going to be a big deliverable."

The United States has taken measures before to "manage trade" with foreign nations (Turpin, 2026). The purpose of this paper is to examine that earlier record and to assess its implications for today.

¹ Professor of Geopolitics & Strategy, IMD Business School, Lausanne, Switzerland; Co-Chair, Trade & Investment Council, World Economic Forum; Founder, St. Gallen Endowment for Prosperity Through Trade, the institutional home of the few remaining independent trackers of digital, trade, industrial, subsidy and investment policy. Comments welcome. Email address: simon.evenett@imd.org.

² A "Board of Investment" has also been mooted (Reuters, 15 March 2026).

2. The “Interface Problem”

The friction that drove Washington, DC to managed trade policies in the 1980s was identified by the late Professor John H. Jackson, the eminent trade lawyer. In *The World Trading System: Law and Policy of International Economic Relations* (MIT Press, 1989), Jackson advanced an 'interface theory' to account for the United States' approach to commercial relations with Japan, the latter being seen at the time as a significant threat to American economic and technological primacy (Trachtman, 1999).

Jackson argued that international trade law based on equal treatment (non-discrimination) principles would come under pressure when national capitalisms, associated business structures, and legal systems of major trading economies differ from each other in fundamental respects. The GATT framework of trade rules had been designed on the assumption that governments set rules and private commercial actors trade within them. When one major trading partner operates a state-directed economy (as was the American perception of Japan during the 1980s and early 1990s), the government is simultaneously rule-setter and commercial actor. In that situation, the interface between the two economic systems generates distortions that market-access rules found in trade agreements cannot resolve. Unless some mechanism is created, enduring trade tensions are the result.

On this view, Japan was the test case in the 1980s; China poses a similar challenge today but on a greater scale.³ Still, the proposed Board of Trade amounts to acknowledging that U.S. policy cannot change China's economic system and trajectory; rather, American officials want to manage the fallout from these apparently irreconcilable systemic differences. Bilateral trade management based upon agreed limits on quantities of goods traded, rather than price-based mechanisms (like tariffs), is in the offing. If this is a case of old wine in new bottles, did the previous variant leave a bad taste in the mouth?

3. The 1980s Precedent

Japan was then what China is now: the rising economic power whose industrial model Washington, DC judged to be at risk of displacing American primacy. Voluntary export restraints (VERs) were the instrument frequently chosen to address that concern: under threats of U.S. tariffs and other coercive measures, the trading partner “agreed” to limit the quantity exported to the United States of certain sensitive goods. In addition, commitments by trading partners to expand their imports from the United States (so-called Voluntary Import Expansions) were adopted from time to time.

Between 1981 and the early 1990s, the United States negotiated over one hundred bilateral agreements with Japan (Branstetter, 2017) covering a range of sectors including automobiles, machine tools, semiconductors and steel (Itoh and Nagaoka, 1997). Often these were presented as temporary measures to give American industry the time needed to restore competitiveness. Treasury Secretary James Baker III acknowledged in 1987 that the Reagan administration had 'granted more import relief to United States industry than any of its predecessors in more than half a century' (cited in Richman, 1988, p. 7).

American resort to managed trade policies was analysed and extensively critiqued at the time. For example, Irwin (1994a) provides a succinct account of the many criticisms from leading trade analysts of this departure from the world trading system's long-standing non-discrimination principles.

4. Seven critiques of managed trade

Earlier resort to managed trade initiatives has been critiqued on at least seven grounds. That so many deficiencies were identified in research ought to give pause to officials and corporate executives today.

³ Another difference is that China is not a treaty ally of the United States, as Japan was (and is). Indeed, China's military build-up is seen as a threat to American military dominance. That an open world trading system facilitated Chinese export-led growth, which in turn financed Beijing's military build-up, is a point made by American hawks. Taken seriously, that argument calls for thinning not just the United States' trade ties with China but other nations as well. Bilateral decoupling by the United States from China is insufficient on this security-driven view. See Evenett (2026) for an exploration of four pathways for the world trading system through to 2035 when such security imperatives trump commercial considerations of the world's largest economies.

Critique 1: American consumer's interests were sacrificed, again

The most compelling evidence of the harm done by VERs to American consumers comes from the 1981 VER on Japanese automobile exports. Berry, Levinsohn, and Pakes evaluated the programme from its inception through 1990 in a study published in the *American Economic Review*. A key finding was that the VER raised the prices of Japanese cars by approximately US\$1,200 per vehicle in 1983 dollars, some fourteen per cent above the level that would have prevailed without the restriction. The principal impact was concentrated in the period 1986 to 1990, when domestic demand had recovered to the point at which the quota limits bite. The losses to consumers over that period amounted to US\$13.1 billion in 1983 dollars. Against this, the cumulative profit gain to US automakers amounted to approximately US\$10 billion, yielding a net welfare loss to the US economy of approximately US\$3 billion (Berry, Levinsohn, and Pakes, 1999, pp. 401, 421). Crandall (1987, p. 276) found that this VER also served as a facilitating instrument for domestic oligopoly pricing: producers restrained output and raised prices once import competition was curtailed.

Feenstra (1984, pp. 35-66) used hedonic regressions to separate the price effect of the VER from the quality-upgrading response of Japanese exporters. He found that approximately two-thirds of the observed rise in average import prices after 1981 reflected shifts toward higher-quality cars rather than a real price increase for comparable vehicles. On this basis, the welfare loss in 1980 and 1981 was approximately three per cent of revenue spent on Japanese imports.

Critique 2: Profits were transferred to the rising power

Because VERs are administered through quota allocations by the exporting government, the induced scarcity premium in the US market accrued to Japanese firms rather than to the US Treasury (as would have been the case had tariffs been imposed). In the Japanese case, the allocating authority was the Ministry of International Trade and Industry (MITI). Berry, Levinsohn, and Pakes calculated that by choosing a VER over a tariff the United States transferred US\$11.2 billion (in 1983 dollars) to Japanese firms rather than to its own Treasury (Berry, Levinsohn, and Pakes, 1999, p. 401). The VER was chosen to preserve the appearance of Japanese agency and to deflect scrutiny from trading partners. The cost of that choice was borne by US consumers and taxpayers.

Critique 3: Negligible Employment Gains in the United States

The employment case for the VER on Japanese automobiles did not withstand examination. Feenstra (1984, p. 55) found that "the employment impact of the VER during its first year was 5 percent or less of existing layoffs." Bryan and Humpage (1984) came to similar findings: the VER protected at most 1,500 net jobs at a cost to consumers that exceeded US\$2 billion, a cost per job saved that no conventional policy calculus would endorse. In general, VERs were not a successful recipe for reversing much manufacturing job loss.

Critique 4: No Meaningful Reduction in Bilateral Trade Deficits

The stated purpose of reducing the bilateral trade deficit with Japan was not achieved. Branstetter (2017) documented that the bilateral goods trade deficit with Japan remained high throughout the 1980s and 1990s, rose further in the 2000s, and declined only with the Great Recession. Restricting one category of imports displaces consumer expenditure to other categories, while exchange rate effects offset any reduction in bilateral trade flows. Branstetter pours cold water on "American trade diplomacy attempting to reduce the deficit by targeting outcomes industry-by-industry."

The United States General Accounting Office reported to Congress in April 1987 that foreign trade barriers and a loss of US competitiveness "were not major contributors to the increase in the US trade deficit in the 1980s". The primary cause was the appreciation of the U.S. dollar, which the GAO estimated accounted for between fifty and sixty per cent of the increase in the trade deficit from 1980. Relatively strong US economic growth contributed a further fifteen to twenty-five per cent (GAO, 1987, pp. 2-4).

Critique 5: Downstream American Industries Damaged

Managed trade in one sector damaged industries further along the supply chain. The 1986 US-Japan Semiconductor Trade Agreement required Japan to end what the United States characterised as dumping in world markets and to target a twenty per cent share of the Japanese market for foreign producers. It raised the price of chips in the United States as intended. However, it did not oblige Japanese integrated electronics producers to raise their internal transfer prices for semiconductors. Japanese computer manufacturers therefore sourced chips at prices below those paid by their US counterparts, reducing the competitiveness of US firms in the computer market (Liebeler and Knoll, 1990, p. 9). The resulting price increases for downstream users were severe enough that US computer manufacturers organised to reverse the antidumping provisions. Those provisions were removed in the 1991 renegotiation (Irwin, 1994b). Crandall (1987, p. 273) identified the same mechanism in steel: restricting imports from the European Community and Japan induced sourcing from Brazil, Taiwan, and Canada, leaving aggregate import penetration close to its pre-restriction level.

Critique 6: US Industry Adjustment Postponed, not Eased

VERs were also presented as a temporary measure to facilitate adjustment by struggling import-competing firms (Crandall 1987). In neither automobiles nor steel did VERs on Japanese suppliers produce the broad restructuring and renewed competitiveness of American rivals. For example, Crandall (1987, p. 281) found that US auto industry cash flows increased by approximately US\$8 billion in 1984, while domestic output fell by three to four per cent.

In steel, protection from imports was applied in three episodes: 1969 to 1974, 1978 to 1982, and 1984 to 1989. Each time the same justification was advanced. No episode produced a durable recovery in competitiveness or a restructuring sufficient to prevent renewed pressure from imports (Crandall 1987).

Critique 7: Corporate Strategies Adapt to Protect Gains

Once a VER was in place, both the protected domestic industry and the constrained foreign exporters adapted their commercial strategies to the restriction, often reinforcing support for the new trade-restrictive arrangements (Liebeler and Knoll 1990). For example, Japanese automakers moved upmarket, built US assembly plants, and allocated their export quota to the cars with the highest profit margin. Each of those responses reduced the Japanese incentive to remove the VER. For their part, US automakers lobbied for extension because they had invested under the assumption of continued protection from imports.

5. China is Not Japan

Two further differences between Japan in the 1980s and China in the 2020s should be discussed. China is a more formidable counterpart now than Japan was in the 1980s. In 2025 China was a larger trading partner to 157 countries than the United States, accounting for sixty-seven per cent of the 233 economies tracked by Trade Data Monitor. In the first quarter of 2026, only 10 per cent of China's goods exports were destined for the United States (fDi Intelligence, 13 May 2026). In short, China has plenty of alternative foreign markets to sell its exports.

Japan never possessed the capacity to impose asymmetric pain on the US economy. China demonstrated that capacity during the trade war of 2025 when it imposed and then suspended export restrictions on Rare Earth elements. Recall that, by design, the new Board of Trade will not address such sensitive areas of trade policy. In short, the Board won't tackle the weaponisation of trade by either party.

6. Systemic Fallout and Thin End of the Wedge

The consequences of embracing managed trade approaches will extend beyond the Sino-US bilateral relationship. A Board of Trade established outside the World Trade Organisation framework would implicitly endorse a two-tier world trading order: rules-based multilateralism for smaller economies, and managed trade by negotiation for the two largest (a feature of two of the security-driven scenarios for the world trading system identified in Evenett (2026)).

To the extent that managed trade mechanisms rely heavily on quantity limits on imports and exports, this takes the world trading system back decades in one critical respect: it reverses the progress of converting non-tariff measures into more transparent, easier-to-negotiate tariff reductions.

Moreover, managed trade mechanisms could over time become tools to balance the value of trade flows between two nations. Taken to the extreme, managed trade could degenerate into forms of barter, where individual or groups of import transactions with a particular trading partner must be offset by exports to that partner following some agreed formula. As is the case in trade policy more generally, the devil will be in the details. Whether such extreme forms of managed trade are specifically excluded from the powers of the Board of Trade is something to check at its inception and to track over time.

To date, managing cross-border trade has been confined to goods. An unwelcome trade policy development would be the extension of managed trade approaches, where it feasible, to trade in services and to foreign direct investment flows. As these observations make clear, the creation of a Sino-US Board of Trade could be the thin end of a wedge. Contemplating such extreme developments is no longer outlandish after the trade policy turmoil of recent years.

7. Managed Trade Didn't Work Then. Why Will it Work Now?

The 1980s record is consistent across sectors, time periods, and assessment methodology. As practiced, managed trade raised consumer prices, transferred excess profits to the power threatening U.S. primacy, protected few American jobs at disproportionate cost, left bilateral trade deficits unaddressed, damaged downstream U.S. industries, failed to provide the space for meaningful adjustment and competitiveness improvement, and resulted in trade curbs that outlasted their stated rationale. It is difficult to find another salient trade policy initiative that failed so comprehensively.

The proposed US-China Board of Trade is likely to be old wine in new bottles, a more institutionalised version of the same instrument, applied against a counterpart with greater economic weight, more diversified trade relationships, and demonstrated capacity for hard-hitting retaliation. This time around the United States will not be dealing with a counterparty that is dependent on it for defence, an important source of leverage over Japan. Unless this “deliverable” is entirely for summit media consumption, it is difficult to see how a managed trade approach today between China and the United States will fare better than its 1980s predecessor.

Jackson's Interface Problem, characterised as the fundamental incompatibility of trade between a dominant market economy and a more state-influenced rising power, will not be resolved by a Board of Trade that returns to the managed trade policies of the 1980s. Most likely, a Board of Trade will formalise the status quo and, at best, will buy America time to restore its edge. Given the pace of home-grown innovation by Chinese firms, whether time is on the side of Washington, DC and American business is worth dwelling upon.

Moreover, whether Beijing will be troubled by a mechanism that covers a falling share of its national exports is another pertinent consideration. The erratic and transactional nature of decision-making witnessed to date from the Trump Administration may lower the downside risk to China of any new managed trade initiative. It seems we are no closer to a lasting solution to Jackson's Interface Problem as the current contest for global primacy intensifies.

References

Berry, S., Levinsohn, J. and Pakes, A. (1999) 'Voluntary Export Restraints on Automobiles: Evaluating a Trade Policy', *American Economic Review*, vol. 89, no. 3, pp. 400-430.

Branstetter, L. (2017) 'Do Trade Restrictions Work? Lessons from Trade with Japan in the 1980s', *Econofact*, 20 November. Available at: <https://econofact.org/do-trade-restrictions-work-lessons-from-trade-with-japan-in-the-1980s>

Bryan, M.F. and Humpage, O.F. (1984) 'Voluntary Export Restraints: The Cost of Building Walls', *Economic Commentary*, Federal Reserve Bank of Cleveland, 15 June.

Crandall, R.W. (1987) 'The Effects of US Trade Protection for Autos and Steel', *Brookings Papers on Economic Activity*, no. 1, pp. 271-288.

Evenett, S.J. (2026) 'Trade Governance in a Security-Conscious World', IMD Business School, 23 March. Paper commissioned by the Brookings Institution.

fDi Intelligence (2026) 'Trump Travels to Beijing to an Emboldened China', fDi Intelligence, 13 May. Available at: <https://www.fdiintelligence.com>

Feenstra, R.C. (1984) 'Voluntary Export Restraint in US Autos, 1980-81: Quality, Employment, and Welfare Effects', in R.E. Baldwin and A.O. Krueger (eds.), *The Structure and Evolution of Recent US Trade Policy*, Chicago: University of Chicago Press, pp. 35-66.

GAO (United States General Accounting Office) (1987) *The US Trade Deficit: Causes and Policy Options for Solutions*, GAO/NSIAD-87-135, Washington DC: GAO, April.

Itoh, M. and Nagaoka, S. (1997) 'VERs, VIEs, and Global Competition', in E.M. Graham and J.D. Richardson (eds.), *Global Competition Policy*, Washington DC: Institute for International Economics, pp. 475-499.

Irwin, D.A. (1994a) *Managed Trade: The Case against Import Targets*, Washington DC: AEI Press.

Irwin, D.A. (1994b) 'Trade Politics and the Semiconductor Industry', NBER Working Paper no. 4745. Published as 'The US-Japan Semiconductor Trade Conflict' in A.O. Krueger (ed.), *The Political Economy of American Trade Policy*, Chicago: University of Chicago Press, 1996, pp. 5-14.

Jackson, J.H. (1989) *The World Trading System: Law and Policy of International Economic Relations*, Cambridge, MA: MIT Press.

Liebeler, S.W. and Knoll, M.S. (1990) 'The Perils of Managed Trade', *Cato Institute Policy Analysis* no. 138, 29 August.

Reuters (2026) 'US, China Discuss Farm Goods, Managed Trade in "Remarkably Stable" Paris Talks, Sources Say', 15 March. Available at: <https://www.reuters.com/business/aerospace-defense/us-china-discuss-farm-goods-managed-trade-remarkably-stable-paris-talks-sources-2026-03-15/> [Accessed 14 May 2026].

Richman, S.L. (1988) 'The Reagan Record on Trade: Rhetoric vs Reality', *Cato Institute Policy Analysis* no. 107, 30 May.

Trachtman, J.P. (1999) 'John Jackson and the Founding of the World Trade Organization', *Michigan Journal of International Law*, vol. 20(2), pp. 175-181.

Turpin, M. (2026) 'Board of Trade, Ahoy! How Old Ideas Reemerge', *China Articles, Substack*, 10 May.