The US-China Trade War Phenomenon (2018-2020) In Economic Diplomacy Perspective

Muhammad Kholid, Universitas Indonesia, Indonesia*

Abstract
The US-China trade war in 2018-2020 has attracted the attention of many observers and researchers to investigate the driving forces that cause the clash between the two great power countries. Most of them place this phenomenon in the prism of realism by using Thucydides’ trap as a framework. Several studies analyze it within the framework of economics and political economy perspectives. This article tries to fill the gap in the explanation of the US-China trade war by using the economic diplomacy framework. Based on a qualitative method, the author argues that the United States under the leadership of Donald Trump uses tariff bargaining as a diplomatic tool to protect and maintain the supremacy of the United States' innovation and technology against China.

Keywords:
Trade war; US-China relations; Economic diplomacy

INTRODUCTION
Donald Trump, the Former President of the United States, implemented an additional policy of increasing trade tariffs by 10-25% on steel and aluminum imports from China, whose import value reached around 50 billion USD. This policy was announced in March 2018 and took effect in July 2018. On July 24, 2018, the United States imposed 25% tariffs on imports of goods from China worth 200 billion USD. On August 1, 2018, the United States again applied 25% to imports of goods from China worth about 510 billion USD. The implementation of a trade war policy with increasing trade tariffs by the United States was retaliated by China, which implemented a 10% tariff increase policy on imports of US goods worth 60 billion USD (Sheng et al 2019).

The Trade war policy launched by the United States made a lot of people ask, how to explain the US trade policy, which plays a prominent role in shaping the global trade system in the globalization age, actually carries out protectionism policies and endangers the future of the global trade system order? Many studies have tried to review this phenomenon since Donald J. Trump, the President of the United States, made a trade war policy against China in early 2018. Through the literature study process, the authors grouped four mainstream perspectives in understanding and explaining the phenomenon of the trade war that occurred between the United States and China.

*Correspondence: Pondok Cina, Beji, Depok City, West Java 16424 Indonesia.
Email: mr.kholid.muhammad@gmail.com.

Received December 9, 2021; Revised March 15, 2022; Accepted April 15, 2022
The first group comes from a realist perspective which holds that the United States-China trade war is a manifestation of an unavoidable open conflict between the two great world powers, namely China as the rising power that opposes the domination of the United States as the status quo. China’s rapid economic growth over the previous decades has made China a new world economic power and threatened the hegemony of the United States in the global economic order. This condition is known as the Thucydides trap or Thucydides Trap. In the current context, the inevitable war between the two great powers takes place, not in the sense of military warfare, but an economic war in the fight for dominating and supremacy of the global economy.

The second group argued that the trade war was triggered by the pressure from the United States’ trade deficit against China. It adversely affects the national economy and reduces the number of jobs for Americans. In the Trump administration’s view, the large US-China trade deficit is caused by China’s unfair trade and industrial policies. The Trump administration believes that the policy of increasing trade tariffs can reduce the trade deficit. (Iqbal et al 2019; Yu and Zhang 2019; Chen et al 2019).

Yu and Zhang (2019) noted the four official views of the Trump administration on the trade deficit phenomenon between the United States and China. First, bilateral cooperation in trade between the United States and China benefits China and harms the United States economy. China’s average exports to the US (2010-2017) reached 4% of GDP, while the average US exports to China (2010-2017) reached around 0.6% of GDP. Second, the United States’ trade deficit with China is caused by China’s unfair policies, namely providing massive subsidies for its industry and tariff policies that are detrimental to the United States and benefit China. Third, the only way to resolve the trade deficit is to increase import tariffs on Chinese goods entering the United States. Fourth, the United States still wants China to specialize in low value-added industries, and the United States still wants its dominance in the high value-added industry.

The third group argued the United States-China trade war was caused by domestic political factors, such as the resurgence of nationalism and populism sentiments in the United States domestic public that support protectionist policies, especially during the 2016 United States Presidential Election. In addition, in the short term, there is an interest in Donald Trump and the Republican Party to gain political support in the 2018 election and a strategy to increase federal budget revenues after the 2017 tax reform (Sukar and Ahmed 2019; Bimantara 2019; Di et al 2019)

Complementing the arguments of previous research, the fourth group views that the trade war between the United States and China must be seen both structurally, institutionally, and also in the internal political dynamics of the United States. The structural theory is in line with the Thucydides Trap thesis. It argues the United States’ action in waging a trade war is caused by structural factors of the international
system that place China’s position as a new world power that threatens the hegemony of the United States as an old power. However, a structural explanation is not sufficient. There are domestic institutional and political issues that also play a prominent role.

Institutionally, the United States wants to force China to reform the design of its economic institutions. From the internal of the United States domestic politics, China sees that the United States wants to export its domestic economic problems by finding an external party, in this case, China, who is the most appropriate to blame. So this has pushed the issue of the trade war into an instrument for the Trump Administration to consolidate political support within the country (Liu and Woo 2018; Wei 2019; Chong and Li 2019).

In this article, the author tries to become an alternative explanation for previous studies by bringing the perspective of economic diplomacy as a framework of thought. In conducting this research, the authors conducted an assessment of primary data from official documents of the United States government and congress, especially from the United States of Trade Representatives (USTR), which has been published on the official website of the United States Congress.

THEORETICAL FRAMEWORK

Economic Diplomacy

Gilpin (1987) defines economic diplomacy as a diplomatic activity that uses political instruments to achieve economic goals/interests or otherwise uses economical instruments to achieve political goals. In his book, Gilpin writes: “Economic diplomacy is understood as the use of political means as leverage in international negotiations, with the aim of enhancing national economic prosperity, and the use of economic leverage to increase the political stability of the nation.”

Bayne and Woolcock (2011) define economic diplomacy as encompassing diplomatic acts that are (1) international economic issues in the international system; (2) carried out by state actors or non-state actors; (3) using a wide range of instruments, from informal forms of diplomacy to coercive diplomacy; (4) on a unilateral, bilateral, regional and multilateral scale; (5) has a direct or indirect impact on the market, both the goods and services market (industry, trade, and investment) and the financial market (currency, banking, bonds, and stocks).

Based on the definition of economic diplomacy formulated by Gilpin (1987) and Bayne and Woolcock (2011) above, Okano-Heijmans (2011) conceptualized economic diplomacy with two main features, namely (1) the main goal of economic diplomacy (primary goal); (2) economic diplomacy tools (diplomatic tools). There are two main objectives in economic diplomacy, namely political and economic targets. Meanwhile, two diplomatic tools used in economic diplomacy, namely political and economic tools. The main objective of economic diplomacy is indicated by a vertical line (y-axis), while the tools of
economic diplomacy are indicated by a horizontal line (x-axis). Look at Picture 1.

**Picture 1**
**Economic Diplomacy Conceptual Framework**

![Economic Diplomacy Conceptual Framework](source: Okano-Heijmans (2011))

By using the conceptual framework mentioned above, there are two objectives of economic diplomacy, namely: (1) power-play-end, namely for the sake of power to achieve political stability; (2) business-end, namely obtaining business/economic benefits to achieve economic prosperity. To achieve the first goal, namely power-play-end, the state as the core actor in economic diplomacy uses economic instruments to achieve political interests. Okano-Heijmans (2011) gives an example of two tools, namely economic sanctions (negative sanctions) and economic inducements (inducements).

In achieving the second goal, namely economic and business interests (business-end), the state uses political instruments to gain economic or business benefits. In the conceptual framework above, Okano-Heijmans provides examples of trade diplomacy and commercial diplomacy. In trade diplomacy, tariff bargaining has often been used as an instrument. It can carry out multilateral, regional, bilateral, or even unilateral diplomacy. In this case of the trade war against China, the United States uses tariff instruments unilaterally as a diplomatic tool to pressure China and protect the United States’ economic and political interests.

**RESEARCH METHOD**

This study used qualitative research methods. Lamont (2015) defines qualitative research methods as data collection and analysis techniques or strategies for non-numeric data. Qualitative research methods are used to understand social phenomena by focusing on meaning and processes. Qualitative methods aim to provide interpretations and perspectives on these social phenomena (Callan 2013). The approach of qualitative research methods often uses inductive reasoning compared to deductive reasoning. So qualitative research methods construct theories and conceptual frameworks
from empirical observations (Bryman 2008).

In the data collection process, qualitative methods can use in several ways, such as conducting interviews with resource persons, Focus Group Discussions (FGD), field research, and official documents issued by relevant authorities, both accessible and limited documents. In addition to primary data, qualitative data can also take from secondary data, such as data on the internet, mass media, interviews on TV, articles, journals, books, and so on (Lamont 2015).

In this research, the authors collect qualitative data, both primary and secondary data. The primary data is obtained from the official documents of the United States Trade Representative (USTR), which can be accessed by the public. In addition, the author also refers to many previous scientific articles and documents made by research institutions.

DISCUSSION

*Tariffs as a Tool for Economic Diplomacy: from Rules-Based Bargaining to Tariff-Based Bargaining*

Tariffs have a prominent role in the foreign policy of the United States. The formation of tariffs is also closely related to the dynamics of domestic political interests and the United States' national interests abroad. From a domestic political perspective, tariff policy is a manifestation of the interests of domestic industry and a form of public accountability of the United States government to its people. In the international politics view, tariffs are a manifestation of the United States’ national interests and how the world order is formed based on the international liberal order. (Krasner 1976).

The Trump administration's international trade protectionist policies have withdrawn the role of the United States as the global power with the most interest in maintaining the international liberal order established under the post-World War II Bretton Woods Agreement. The United States always encourages various countries in committing to the multilateralism mechanism through the World Trade Organization (WTO) (Pangestu 2019).

The United States Trade Representative (USTR) in its official report to the US Congress (2020) through the WTO, stated that the US changed the multilateralism approach (rules-based bargaining) to unilateralism (tariff-based bargaining), due to China's policy practices that did not comply with the WTO principles. America claims that China is aggressively using a mercantilistic approach as its economic development strategy. USTR (2020, 4) writes:

“…..China’s compliance with WTO rules has been poor. China has continued to embrace a state-led, mercantilist approach to the economy and trade, despite WTO members’ expectations – and China’s representations – that China would transform its economy and pursue the open, market-oriented policies endorsed by the WTO. At the same time, China’s non-market approach has imposed, and continues to
impose, substantial costs on WTO…”

According to the United States, China has always taken refuge in its status as a developing country, so it looks for opportunities to benefit its economy and harm the economies of its trading partners, such as the United States. Several attempts were made to pressure China into correcting its unfair policy practices but to no avail. USTR (2020, 4)

“…we identified and explained the numerous policies and practices pursued by China that harm and disadvantage US companies and workers, often severely….The US’s persistent yet unsuccessful effort to resolve the many concerns that have arisen in our trade relationship with China…”

According to the United States, China has always taken cover under its status as a developing country. It looks for opportunities to benefit its economy and harm the economies of its trading partners, such as the United States. Several attempts were made to pressure China into correcting its unfair policy practices but to no avail. USTR (2020, 4)

The international trading system under the WTO is no longer profitable for the United States’ domestic industry. China is assumed to be more advantaged by being given space to carry out unfair policies in the decision of tariffs, non-tariff, subsidies, industrial policies, intellectual property rights, and technology transfer. The United States also considers the WTO incapable of enforcing fair rules for its member countries, especially developed countries, such as the United States (USTR 2020, 5-6).

In the 2018-2020 period, the Donald Trump administration used tariffs as an instrument of its economic diplomacy against China. The author divides several parts of the tariff war process carried out by the United States against China (See Table 1).

<table>
<thead>
<tr>
<th>The tools of diplomacy</th>
<th>The United States Policies</th>
<th>China’s Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff Action I</td>
<td>On January 22, 2018, President Trump agreed to apply safeguard tariffs on 8.5 billion imported Solar Panel products and 1.8 billion imported washing machines from China.</td>
<td>On April 17, 2018, the Chinese government retaliated by implementing an anti-dumping duties policy of 178.6% of Sorghum imports from the United States. This policy only lasts until May 18, 2018, after a negotiation process with the United States. The Chinese government also filed a trade lawsuit</td>
</tr>
<tr>
<td>The tools of diplomacy</td>
<td>The United States Policies</td>
<td>China’s Responses</td>
</tr>
<tr>
<td>------------------------</td>
<td>---------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>section 201 of the 1974 Trade Act that the import of solar panels and washing machines is detrimental to the US solar panel and washing machine industry.</td>
<td>related to the tariff policy for solar panels and washing machines from the United States to the WTO.</td>
<td></td>
</tr>
<tr>
<td>Tariff Action II</td>
<td>On March 1, 2018, President Trump announced a policy of increasing trade tariffs by 25% on steel and 10% on aluminum for all trading partners of the United States including China. Using the regulation of Section 232 of the Trade Expansion Act 1962, the United States Government investigated the impact of imports of steel and aluminum. The investigation found that imports of steel and aluminum threaten the national security of the United States.</td>
<td>On April 2, 2018, China retaliated by implementing retaliatory tariffs on aluminum waste and scrap, pork, fruit and nuts, and several other imported products from the United States’ whose value reached 2.4 billion USD in 2017. It is equivalent to the price of China’s steel and aluminum exports to China. United States reached 2.8 billion USD in 2017.</td>
</tr>
<tr>
<td>Tariff Action III</td>
<td>On April 3, 2019, President Trump announced a 25% increase in tariffs on 1,333 products imported from China worth about 50 billion USD. Most of these imported products are capital and intermediate goods such as machinery, mechanics, and electronics. Using the regulation of Section 301 of the Trade Act 1974 regarding Intellectual Property Rights, Technology Transfer, and Innovation, President Trump accused China of theft of intellectual property rights, forced technology transfer, and</td>
<td>On April 4, 2018, the Chinese government retaliated by announcing a 25% increase in tariffs on imports of automotive, aircraft, agricultural products, and 106 other products related to the United States’ tariff policy under the regulation of Section 301. The value of the products is approximately 50 billion.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>On June 15, 2018, China revised its product list. They were covering a value of 45 billion USD of US imports.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>On July 6, 2018, China implemented the first step of a tariff increase of 34 billion US.</td>
</tr>
<tr>
<td>The tools of diplomacy</td>
<td>The United States Policies</td>
<td>China's Responses</td>
</tr>
<tr>
<td>------------------------</td>
<td>---------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>unfair and discriminatory acts against US companies operating in China.</td>
<td>On June 15, 2018, the United States revised its product list policy (from 85% of capital and intermediate goods to 95% capital and intermediate goods).</td>
<td>On August 3, 2018, China retaliated by announcing it would raise 25% tariffs on 60 billion products imported from the United States.</td>
</tr>
<tr>
<td></td>
<td><strong>Tariff Action IV</strong></td>
<td>On August 23, 2018, China executed the plan by imposing 25% tariffs on 50 billion USD.</td>
</tr>
<tr>
<td>On July 10, 2018, USTR announced plans to impose 10% tariffs on 200 billion USD of imported goods from China, such as consumer goods, telephones, computers, automotive, furniture, etc.</td>
<td>On August 1, President Trump asked for a 25% increase in tariffs instead of 10% on 200 billion Chinese imports.</td>
<td>On August 23, 2018, China executed the plan by imposing 25% tariffs on 50 billion USD.</td>
</tr>
<tr>
<td>On August 3, 2018, China retaliated by announcing it would raise 25% tariffs on 60 billion products imported from the United States.</td>
<td>On August 23, 2018, China executed the plan by imposing 25% tariffs on 50 billion USD.</td>
<td></td>
</tr>
<tr>
<td><strong>Tariff Action V</strong></td>
<td>On May 10, 2019, the United States executed a 25% tariff increase which was previously postponed on September 18, 2018, for 200 billion Chinese imported products.</td>
<td>On June 1, 2019, China took retaliatory action by increasing tariffs by 36 billion USD from the previously planned 60 billion USD.</td>
</tr>
<tr>
<td>President Trump plans to add another 10% increase in tariffs on 112 billion Chinese imports (clothing and shoes) on September 1, 2019, and increase 10% of the tariffs on 160 billion imports of toys and electronics on December 1, 2019.</td>
<td>China announced it would retaliate against the United States' action by increasing tariffs on 75 billion US exports to China on September 1 and December 15, 2019. China will increase the tax from 12.6% to 42.6% for the automotive industry.</td>
<td></td>
</tr>
<tr>
<td>Trade Deal-</td>
<td>President Trump canceled the</td>
<td>China responded favorably to the early-</td>
</tr>
</tbody>
</table>
The tools of diplomacy | The United States Policies | China’s Responses
---|---|---
Phase I | planned increase in tariffs in October 2019. Trump’s plan will increase the tax on 250 billion USD of Chinese imports. Trump also postponed the implementation of the planned December 2019 tariff increase. | stage deal, and committed to purchasing US$200 billions of US products as a policy to reduce the high US-China trade deficit. The first stage of the agreement between the United States and China is to jointly commit to stop the act of theft of intellectual property rights, and provide legal protection for the protection of intellectual property rights of every company that will operate in their respective countries. On January 15, 2020, the United States entered into the first phase of the agreement scheme. The United States included issues in the 301 provisions concerning intellectual property rights, technology transfer, and market access.

According to IPR, the protection process is carried out as the process takes place in developed countries. The Chinese government is also committed to non-discriminatory policies and will not force US companies to transfer technology and partner with local companies.

Source: Edited by the author from the Peterson Institute for International Economics (2020)

*Maintaining Technological Supremacy*

The first target of United States economic diplomacy is to force the Chinese government to stop the theft of Intellectual Property Rights (IPR). The United States government has also compelled China to enforce laws for the theft of intellectual property rights by Chinese companies against American technology companies. The pressure is for the IPR of the United States to get legal protection from the company and fair treatment (USTR 10/10/2017, 6-10).

The United States government estimates the accumulated cost of economic losses in the United States due to theft of intellectual property rights to reach 1.6 trillion USD over the last four years (2013-2017). The accumulated losses due to the theft of intellectual property rights have resulted in the loss of millions of job opportunities for citizens, harming thousands of companies, reducing incentives for research development, development, and innovation in the country, reducing economic productivity, and slowing economic growth. It happened in the last 15 years during 2002 to 2017 (USTR, 10/10/2017, 10-11).

Referring to the Made in China 2025 Five-Year Development Plan, China prioritizes the acquisition agenda of intellectual property rights from other
countries in the world through investment and trade cooperation mechanisms. The United States government estimates that China commits about 80 percent of international IPR thefts. The acts of international IPR theft in practice are supported and encouraged by the Chinese government. The Chinese government’s low commitment to the protection agenda of intellectual property rights harms the United States technology industry (USTR, 10/10/2017, 13).

The above situations give three disadvantageous effects. First, the cost of stealing IPR is small compared to the benefits of protecting IPR. So the chances of getting caught and punished are also low. This condition is detrimental to the United States industry, whose company value is highly dependent on IPR patents. Second, the theft of intellectual property rights will further strengthen China’s technological and cyber capabilities, which have the potential to enlarge for cyberattacks that threaten the national security of the United States. Third, the theft of intellectual property rights will strengthen China’s technological capacity and capability to dominate technological innovation and industrial production in the world (USTR, 10/10/2017, 14-15).

The second target of US economic diplomacy is to stop the policy of forced technology transfer of US companies against Chinese companies. For the United States government, various Chinese government policies that limit investment by using forced technology transfer harm the United States technology industry. Two prominent aspects of the Chinese government’s technology transfer policy are considered the most detrimental to the US industry.

First, the United States Government claims that China uses restrictions on foreign ownership, both formal and informal, regarding the requirements for venture capital to invest in China. China also uses a foreign investment restriction policy to force US companies to transfer technology first. The Chinese government also prohibits US companies from operating in China until the Chinese company has a local business partner or its shareholding is controlled by a Chinese company (USTR 03/22/2018, 18).

Second, the Chinese government uses non-transparent and discriminatory administrative and licensing requirements for each foreign investment agreement approval to operate in China. With a licensing system that is not transparent and discriminatory, the Chinese government has full authority to enforce the technology transfer policy. Since 2001, when China joined the WTO, the Chinese government promised to carry out policy reforms related to technology transfer. However, the facts on the ground, US companies feel that there is no change in policy. If it used to be done openly, since participating in the WTO, China has done it indirectly, informally, and playing by the rules made (USTR 22/03/2018, 18-19).

According to the Information Technology and Innovation Foundation (ITIF), a leading Think Tank in Washington, United States. In its
testimony in front of USTR and the United States Congress stated:

“For too long China has systematically flouted the spirit and often the letter of its commitments to the World Trade Organization. Even more than 15 years after it joined, China remains the leading purveyor of what ITIF calls innovation mercantilism, fielding every mercantilist policy imaginable from forced IP and technology transfer as a condition of market access, to production export subsidies, to currency and standards manipulation in sectors ranging from ICTs and solar panels to steel and automobiles.” (USTR 10/10/2017, 17).

ITIF calls China’s unfair practice “innovation mercantilism”, where innovations were built by the Chinese government in carrying out illegal activities such as theft of intellectual property rights and forced transfer of technology from the United States. It is assumed to jeopardize the future of the technological supremacy of the United States of America. Furthermore, ITIF reports that the Chinese government has committed to invest USD300 billion in the Made in China 2025 program with the ambition to become a global leader in the semiconductor, biotechnology, aircraft, and robotic industries. In the development of the semiconductor industry ecosystem alone, the Chinese government will invest 150 billion USD, with the target that within the next ten years, it will be reduced imports of semiconductors by 50%. In the next 20 years, China hoped that will be able to produce them independently as a whole, and 70% of all industries operating in China use Chinese products (USTR 10/10/2017, 18-22). 19).

CONCLUSION

The United States-China trade war is an interesting phenomenon to study from various perspectives. Each perspective will lead to a different explanation of the trade war phenomenon. This paper finds that the United States-China trade war is a strategy and tool for the United States’ economic diplomacy to protect and maintain the supremacy of domestic technological innovation. For the United States, this trade war is not just a matter of trade imbalances from the economic perspective. The United States’ protectionist policy is an instrument of US diplomacy to pressure China to stop the theft of intellectual property rights and hinder China’s technological progress against the United States. It is more related to the long-term interests of the United States technological supremacy over China's technology industry. It is because, in the long term, the rise of China’s technology industry will threaten the national security of the United States as a status quo power.

REFERENCES


