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To cite this article:


To link to this article:

https://doi.org/10.20956/hjsis.v2i1.31630
The Causes of The United States Launching A Trade War Against The People’s Republic of China (PRC) in 2018

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Abstract
The trade war between the United States and the People’s Republic of China (PRC) has attracted world attention because it was predicted to affect the global economy. The trade war started with the United States implementing high import tariffs on PRC products, to which the PRC then responded with similar actions. The application of this tariff is a response to the trade deficit that occurred to the United States in its trade with China. The United States’ trade deficit with China has existed since 1989. Meanwhile, in 2017, the United States and China agreed to implement a 100-day plan aimed at opening up and expanding trade between the two countries. Thus, the question in this research is “Why did the United States launch a trade war against the People’s Republic of China (PRC) in 2018?”. The theory used in this research is trade expectations theory. The data sources are official United States government documents, World Bank reports and various journals related to this theme. This paper aims to analyze the causes of the United States launching a trade war against the PRC in 2018. The result of this research is The United States launched a trade war against the PRC was because of the United States’ negative expectations of the PRC which made the United States choose war against the PRC even though there was high dependence between the two countries. Negative expectations of the United States were assessed by trade deficit aspect, foreign investment aspect, employment and unemployment rate, and public opinion.

Key Words: Trade War, Negative Expectations, Trade Deficit.

1. Introduction
Trade wars are often associated with a country’s protectionism. After World War One, the United States imposed high tariffs under the pretext of protecting domestic constituents and increasing state income from international trade. Previously, the government was controlled by The Democratic Party which supported free trade by setting low tariffs (Underwood-Simon Tariff). In 1920, the United States was taken over again by The Republican Party which ended the period of implementing these low tariffs. Through the Fordney-McCumber Tariff Act, the United States has regulations to be able to increase and decrease tariffs by up to 50% in order to equalize domestic and foreign production costs. The implementation of this rule made it difficult for European countries to export their goods to the United States, which also affected the ability of European countries to obtain dollars as payment for war debts. (Departement of States United States of America, 2021)
In 2018, the United States under the leadership of President Donald Trump attracted world attention by implementing protectionism which resulted in a trade war against the People’s Republic of China (PRC). The United States versus China trade war began with the United States’ trade deficit against China amounted to $419 billion (Palumbo & Nicolaci, 2019). The United States accused the PRC of carrying out unfair trade practices, for example, stealing Intellectual Property Rights (IPR) on several United States technology products. On the other hand, the PRC assumed that the United States wanted to curb the PRC’s economic rise as a potential global economic power (BBC News, 2020).

Thus, in March 2018, the United States announced implementation of massive tariffs on imported products from the PRC in response to the United States’ allegations that the PRC had stolen IPR (Intellectual Property Rights) in the technology sector. The implementation of the import tariff amounted to 50 billion USD. The application of import tariffs continued in the steel and aluminum sectors, clothing, shoes, electronics, even a ban on Chinese investment in the United States. It provoked a response from the PRC by taking countermeasures in early April that marked the beginning of the trade war between the two countries (Council on Foreign Relation, 2021).

In July 2018, the trade war continued and became increasingly heated. The two countries reciprocated the implementation of tariffs and other restrictive measures. The United States implemented tariffs amounting to $34 billion, and more than 800 Chinese products were subject to import tariffs of up to 25%. The PRC retaliated by imposing import tariffs on around 500 products from the United States amounting to almost the equivalent of $34 billion (Council on Foreign Relation, 2021). The trade war continues, and it is estimated that the amount of import tariffs during the trade war is $550 billion for PRC products, and $185 billion for United States products (Mullen, 2021). The year of 2018 was indeed the peak of heated trade relations between the United States and PRC because for the first time the United States launched a trade war against PRC. One of the reasons for the United States’ protectionist actions which led to a trade war was the large number of United States trade deficit. The trade deficit experienced by the United States against China has occurred since 1989. This condition is shown in the following graph.

Figure 1. United States Trade Balance against China 1985-2019 (in $ Billions)
Source: (Chen, 2021)

Apart from that, in 2017, President Donald Trump and President Xi Jinping held a meeting to discuss economic cooperation between the two countries. The United States made this effort to reduce the trade gap with PRC. Based on this meeting, the two countries agreed to implement a 100-day plan covering trade issues in the agricultural, services, investment and energy sectors (US Department of The Treasury, 2021). This agreement makes it possible for
both countries to have access and openness to a wider market. For example, PRC allows the United States to import beef products, and the United States allows direct investment by Chinese entrepreneurs or companies in the United States (US Department of The Treasury, 2021). Based on the dynamics of the phenomenon above, even though the United States' deficit had been occurring since 1989 and in the previous year (2017) both countries had just implemented a 100-day plan for wider economic openness, the question in this research is “Why did the United States launch a trade war against the People’s Republic of China (PRC) in 2018?”

2. Analytical Framework: Trade Expectations Theory

To analyze the causes of the United States launching a trade war against the PRC in 2018, this research uses the theory of trade expectations. This theory was put forward by Dale C Copeland as a response to the debate between realists and liberalists regarding the possibility of war in the context of the existence of economic interdependence. Liberalists believe that economic interdependence can reduce the possibility of war, but realists believe that the potential for war will always exist in an anarchic international system. According to realists, interdependence increases the potential for war because countries are at different levels of dependence and become vulnerable to initiating war (Copeland, 1996).

Trade expectations theory accommodates liberalist and realist debates by arguing that interdependence can avoid potential war on the condition that a country's expectations of trade with its partner countries are positive. In other word, countries believe that the trade with other countries can bring the expected profits. However, if the country's expectations are negative, meaning the country suspects its trade with other countries will suffer losses in the future, then war can occur even in interdependence condition. Trade expectations theory eliminates country dependency variables in looking at the choice of peace or war. This theory looks more at aspects of a country's expectations regarding trade in the future which have an impact on the choice of peace or war (Copeland, 1996).

Trade expectations theory is a theory that can be used in this research because there is harmony between the research objectives which want to look at the causes of trade wars and the content of the theory which also shows the factors that could be behind a war occurring amidst conditions of state interdependence. Based on the results of the literature review, there has been no other paper that analyzes the causes of trade wars using trade expectations theory. Based on trade expectations theory, the operationalization of the theory can be seen as follow:

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country A’s positive expectations in trade with country B (If country A trades with country B it will be profitable in the long run)</td>
<td>The trade between country A and country B will continue</td>
</tr>
<tr>
<td>Country A’s negative expectations in trade with country B (If country A trades with country B it will incur losses)</td>
<td>Country A chooses war with country B even though there is economic interdependence</td>
</tr>
</tbody>
</table>

Figure 2. Theoretical operationalization
Source: Own elaboration

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For the model of analysis, it can be described in the following chart:

![Figure 3. Model of analysis](source: Own elaboration)

### 3. Research Method

This study uses a qualitative method. According to Lamont, qualitative research can be understood as "an effort to collect non-numerical data and analysis". Non-numerical research seeks to understand phenomena in order to make sense of them and makes researchers focus on the meanings and processes that shape international politics. Qualitative methods for international relations studies are often carried out with in-depth studies of international, regional phenomena, countries, organizations and specific individuals (Lamont, 2015). Meanwhile, Moeloeng quoted Jane Richie in the book "Qualitative Research Methods" stating that qualitative methods are an attempt to explain phenomena that occur in the object being studied in terms of behavior, motivation, actions and perceptions (Moeloeng, 2005).

The data sources used in this research are primary and secondary data. Primary data was obtained from official websites of government of the United States and PRC, both government statements via press releases from related ministries such as the ministries of trade. The secondary data was obtained from media articles, journals, books discussing the trade war between the United States and PRC.

### 4. Results and Discussions

The trade war that occurred between the United States and China is not the first time in history. Previously, the United States was involved in a trade war with Japan and the European Union. In fact, in the 1930s, the trade war launched by the United States resulted in a military war (Urbi, 2018). Every trade war that has occurred was motivated by different problems. The trade war between the United States and China in 2018 became a global issue because it was predicted by many experts to bring greater losses than profits (Hass & Denmark, 2020). Apart from that, this trade war has had a significant impact on the global economy (JP Morgan Asset Management, 2018).

Based on the theory of trade expectations, the trade war launched by the United States against PRC was caused by negative expectations from the United States or the suspicion that trade between the United States and PRC would bring losses to the United States. These negative expectations encouraged the behavior of the United States to launch a trade war against the PRC in 2018. To support this argument, an analysis of the negative expectations of the United States towards the PRC will be outlined in several aspects.
4.1. The United States’ Negative Expectations of the PRC Regarding the Trade Balance Deficit

In 2018, when the United States launched a trade war against the PRC, Donald Trump, who was the President of the United States, often issued tweets via his Twitter account depicting negative perceptions of the PRC. Based on Donald Trump’s tweets, it can be seen that there are negative expectations or allegations of losses that the United States will experience in its trade with the PRC. The contents of the tweet are:

@realDonaldTrump: We are not in a trade war with China, that war was lost many years ago by the foolish, or incompetent, people who represented the U.S. Now we have a Trade Deficit of $500 Billion a year, with Intellectual Property Theft of another $300 Billion. We cannot let this continue! (Sheetz, 2018)

![Figure 2: Growth of the United States' Trade Deficit against the PRC](source)(Statista, 2019)

Based on numbers for exports and imports from the United States to China and vice versa, United States exports to China are in third place, amounting to $120,148 million with a partner share of 7.21%. Meanwhile, United States imports from China were ranked first, amounting to $563.203 million with a partner share of 21.57% (World Integrated Trade Solution, 2021). China’s exports to the United States ranked first, amounting to $479,702 million, with a partner share of 19.23%. China’s imports from the United States were ranked fourth, amounting to $156,004 million, with a partner share of 7.31% (World Integrated Trade Solution, 2021).

The deficit experienced by the United States is not only in bilateral relations with the PRC. However, the United States' share in world trade is still less than that of China. The United States’ share in world trade can be seen from the United States export and import figures on a global scale. United States export figures since 2008-2018 have consistently been smaller than import figures. The United States export figure in 2018 was $1,665,303 million, while the import figure was $2,611,432 million (World Integrated Trade Solution, 2021). The PRC’s share in world trade shows that export figures are consistently greater than imports since 2008-2018. China's export figures for 2018 were $2,494,230 million with import figures of $2,134,983 million (World Integrated Trade Solution, 2021).

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4.2. The United States' Negative Expectations of the PRC Regarding Foreign Investment

In 2018, the United States stated the PRC's investment climate was very limited and even restrictive towards foreign investors. These limits and restrictions are in the form of mandatory joint ventures with domestic PRC companies, limiting ownership and shareholder rights of foreign investors, as well as directly prohibiting investment in several sectors. The PRC did this to protect its main sectors, especially State-Owned Enterprises owned by the PRC (US Department of State, 2018). These investment restrictions are considered by the United States to be unfair trade practices (United State Trade Representative, 2018). Regarding this, United States trade representative Robert Lightizer said:

"President Trump has made it clear we must insist on fair and reciprocal trade with China and strictly enforce our laws against unfair trade. This requires taking effective action to confront China over its state-led efforts to force, strong-arm, and even steal U.S. technology and intellectual property. Years of talking about these problems with China has not worked. The United States is committed to using all available tools to respond to China's unfair, market-distorting behavior. China’s unprecedented and unfair trade practices are a serious challenge not just to the United States, but to our allies and partners around the world (United State Trade Representative, 2018)."

From this statement, it can be seen that the United States has negative expectations of the PRC by stating that the PRC has carried out unfair trade practices. It is a serious challenge not only for the United States, but for the United States' allies and trading partners throughout the world. The negative expectations of the United States towards the PRC on the issue of investment restrictions and limitations are strengthened by the fact that in 2018 the United States experienced a significant decline in foreign investment which made the United States fall far from the list of the 10 largest countries giving FDI. A decline in investment provided by the United States could threaten the United States' influence in various regions, especially in developing and underdeveloped countries. Until now, developing and underdeveloped countries still rely heavily on FDI to drive and develop their economies.

4.3. The United States' Negative Expectations of the PRC Regarding Employment and Unemployment Rates

In several studies conducted by United States economists, it is known that increasing imports from China has caused an increase in the unemployment rate in the United States manufacturing sector. For many United States manufacturing companies, competition for imported goods from the PRC led to reduced demand for the goods they produce and reduced the number of workers they employ. If imports from China do not grow in the United States after 1999, manufacturing job losses by 2011 are predicted to reach only 560,000. In fact, with the entry of China's imported products into the United States, the number of United States manufacturing workers decreased by 5.8 million workers from 1999 to 2011 (Acimoglu, 2014). This condition triggered negative expectations of the United States towards China in terms of employment and unemployment rates, as stated by President Donald Trump when announcing the implementation of import tariffs on PRC products in 2018:

“We've lost, over a fairly short period of time, 60,000 factories in our country — closed, shuttered, gone. Six million jobs, at least, gone (Rizzo, 2018).”
Even before being elected President, Donald Trump often raised the issue of the PRC taking away the 'jobs' of the United States citizens. Even during the campaign, Trump used quite tendentious sentences, for example, the PRC steals United States manufacturing because the PRC pays its workers inappropriate prices so they produce very cheap products (Schuman, 2016).

If we look at the unemployment figures for the United States compared to PRC in 2018, the figures are not significantly different. The United States unemployment rate in 2018 was 3.9% (Statista, 2018). The PRC unemployment rate in 2018 was 3.8% (Statista, 2018). Even though it is only slightly different, the unemployment rate in the United States in 2018 was the lowest since 2010. This has sparked concerns in the United States regarding the unemployment rate which will continue to increase, especially as previously discussed, there is a relationship between the high import of Chinese goods to the decline in the number of workers employed in the manufacturing sector in the United States.

4.4. United States' Negative Expectations of the PRC Based on Public Perception

The United States as a democratic country provides space for its citizens to express opinions regarding the policies that need to be taken by the country. In the context of relations with the PRC, the Pew Research Institute conducted research regarding the United States public's perception of the PRC. The results showed that in 2018, 67% of Americans expressed 'cold feelings' or also defined as negative feelings towards the PRC, especially its government. This figure has increased from 46%. In a broader context, through US citizens' responses to the question "What first comes to mind when thinking about the PRC?" It can be seen that the majority of respondents focus on human rights issues, the PRC economy, and the PRC political system (Pew Research Institute, 2021). Some of the respondents' expressions quoted directly by this research institution include:

"China is fast becoming the economic powerhouse of the world. Its abuse of human rights is one thing allowing this growth. Our trade policies must do more to address this part of its economy. Aside from that, its forward-looking economic and climate change advances in alternative energy technologies are impressive."

"In terms of government: human rights violators, market manipulators, intellectual property thieves, aggressors. In terms of people: warm, kind, intelligent, smart, hardworking. In terms of the landscape: beautiful."

"Too many cheap products are [being] imported from China. We are becoming a wasteland for these products. Flip over almost any product at Walmart and you will see it is from China. Sam Walton would be ashamed. Everyone wants more for less. We are gluttonous. Products we all need daily have prices through the roof... everything else is crap from China."

Based on these statements, it can be concluded that respondents have a negative view of the PRC government, for example, that the PRC is a human rights violator. The PRC was able to achieve rapid economic development because it committed human rights violations. It is also known that the PRC is called a market manipulator and thief of intellectual property rights. Implicitly, some stated that the United States cannot compete with imported products from China, because goods produced in the United States are expensive, while China offers imported products that are much cheaper.
The negative perception of US citizens about the PRC indirectly influences the United States policymaking towards the PRC. Domestic factors become facilitating factors in implementing a policy. As a democratic country, public participation in politics is very important so that the United States' expectations regarding trade with the PRC can be influenced by public perceptions.

Based on the description above, this research found that in 2018 the United States had negative expectations in its trade with China. These negative expectations are constructed from economic facts and values which show that the position of the United States is threatened by the economic growth of the PRC. Thus, the United States needs to take action so that the deterioration of the United States economy can be stopped. According to trade expectations theory, if a country has negative expectations of its partner country, then that country will tend to choose the path of war even though there is economic interdependence between the two. Thus, it can be said that the reason the United States launched a trade war against the PRC in 2018 was because the United States had negative expectations of the PRC in the aspects of trade deficit, foreign investment, employment and unemployment rates, as well as the United States public's perception of the PRC government.

5. Conclusion
Many articles discuss the causes of the United States versus PRC trade war in 2018. However, none of these articles discussed using the theory of trade expectations. This theory discusses the possible causes of war that are caused by negative expectations from the state. This theory has also accommodated realist and liberalist debates in viewing interdependence. This theory can explain anomalies in international relations when war can still occur even if two countries have a high level of dependence on each other. Thus, to understand the phenomenon of the trade war launched by the United States against China in 2018, this research uses the trade expectations theory by Dale C Copeland.

Based on trade expectations theory, a country’s negative expectations of its trading partners can make the country decide to go to war rather than continue cooperation even though the two countries have a high level of dependence. In this paper, the negative expectations of the United States towards China are seen in 1) The trade deficit aspect that the trade deficit of the United States towards China continues to increase, so there is concern from the United States that the deficit will get bigger, 2) Foreign investment aspect. On the one hand, the United States found the PRC implement policies that limit and even restrict foreign investment in its own country. On the other hand, China is the largest provider of foreign investment in the world along with Japan. This made the United States suspecting that if this attitude continues, it could have an impact on decreasing the influence of the United States in various regions, especially developing countries which are still very dependent on foreign investment, 3) Employment and unemployment rate aspect. Imports of PRC products at very cheap prices have reduced demand for domestic companies which has resulted in a reduction in the number of workers in the manufacturing sector. This phenomenon is a particular concern for the United States, because if imported products are not reduced or stopped, the number of companies closing and unemployed Americans will continue to increase, 4) Public perception aspect. The United States public perception of the PRC shows many negative perceptions, for example, the PRC is considered a human rights violator, market manipulator, intellectual property rights thief, and imported PRC products dominate the United States market. The negative perception of the United States public can indirectly influence the negative expectations of the United States towards the PRC because as a democratic country, citizen
political participation is important and needs to be considered by officials who represent the people in government.

Therefore, based on the theory of trade expectations and analysis of the conditions of the United States and China in 2018, it can be concluded that the reason the United States launched a trade war against China was because of the negative expectations of the United States towards China which made the United States choose war against China despite its high dependence between the two countries.

Declaration of Conflicting Interests
The author has declared no potential conflicts of interest concerning this article’s research, authorship, and/or publication.

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