CHAPTER III

TRADE WAR BETWEEN US - CHINA

In this chapter, the author explain the trade war as a whole, covering the relation between the US-China before the trade war, the policies of President Donald Trump issued during his administration. The policy became controversial because it caused a trade war between the United States and China. Where the trade war will affect the American economy and also China. in this chapter the author also describes the chronology of trade wars and the effects of trade wars.

A. Trade Relations between the United States and China Before the Trade War

1. Before Trump Administration

The trade relations between the United States and China have progressed rapidly since China reformed its economy and liberalized its trade regime in the late 1970s. In 1979 the total trade in merchandise trade between the United States and China increased by US $ 2 billion since China's economic reforms began (Morisson, 2018). So that China, which was once a poor country, is now the world's most powerful economy and holds the second position that can balance the United States (Saragih, 2018). Of course with rapid economic development, this will greatly affect progress in other fields so that it will strengthen China's position in the international world (Dharmawijaya, 2012). The trade relations between the United States and China are not always smooth, here are some dynamics of relations between the two countries:

1. In February 1972, President Nixon visited Beijing to improve relations with China and to call together to face the Soviet Union (Atmaja, 2017).

2. In 1978, the Chinese Communist Party began to apply market principles (BBC, 2015).

3. In 1978, China sent hundreds of thousands of citizens to the United States and Europe to explore the foundations of the market economy.

4. On January 1, 1979 relations between the United States and China were normalized and China decided to liberalize its economy in the financial sector by utilizing the presence of banks. Also in 1979, when China invaded Vietnam, the reaction of the United States was silent which meant Washington accepted the role of China independent in regional balance (Atmaja, 2017).

5. In 1980, China began to open up to foreign investment (BBC, 2015).

6. In 1986, the United States approved the supply of energy and nuclear technology for electricity development in China.

7. On June 4, 1989 the United States imposed sanctions on violations of human rights and democracy by stopping the exchange of high-level officials between the two countries as a result of the Tiananmen incident, namely the massacre of demonstrators and students by the TPR or the people's liberation army.

8. On March 26, 1997, Vice President Al Gore visited China to prepare plans for the visit of President Bill Clinton and President Jiang Zemin in the near future. This was done so that through this meeting, the two presidents could increase the lack of harmonious relations of cooperation. The result of the meeting of the Vice President Al Gore was the signing of a trade contract worth US $ 2.2 billion with American companies, Boeing and General Motor, which was signed by Prime Minister Li Peng.

9. On July 1, 1997, Vice President Al Gore and PM Li Peng agreed to maintain the presence of the United States consulate in Hong Kong after the city of Hong Kong was returned to China (Atmaja, 2017).

10. In 2019, exactly 10 May, the US increased import duties on Chinese imports US $ 200 billion.
11. Followed by May 15, the US government banned US companies from using foreign telecommunications equipment. This step was aimed at the big Chinese company, Huawei.
12. August 1, Trump announced a new 10% tariff on Chinese goods US $ 300 billion starting September 1.
13. On August 23, China responded by imposing a new tariff on US goods of 5-10% in effect starting September 1 and December 5, along with Trump announcing new tariffs on Chinese goods valued at US $ 300 billion raised to 15% starting September 1 and increased the existing tariffs from 25% to 30% starting October 1, 2019. The US also accused China of forcing the practice of forcing intellectual property transfers on US companies operating in China.

Furthermore, before the fierce trade war tension between the United States and China occurred, there were other tensions that had occurred in the period before the administration of President Donald Trump, one of which was during the administration of President Obama.

At that time, apart from being the country with the most internet user population in the world. China is also known as a country that has an internet content filtering system that is so monitored and restricted by the government. This is done by the government solely to protect its citizens from sites that are not feasible to be accessed for this communist country such as: pornography, religion, and political movements outside the world and so forth. The Chinese government is very preventing its citizens from freely finding out about the political situation in the communist government structure. So in 2010, the Chinese government took steps to launch a policy in the field of communication called The Great Firewall.

This policy is a system that blocks websites related to what the Chinese government bans, especially Google.

Google was gradually inaccessible in China in the same year. It also meant that the mentality of the Chinese people would not be damaged because they were influenced by irrelevant information and it was intended to maintain the image of the Chinese government so that, it is not bad in the eyes of its citizens. Because these policies make Google companies suffer losses due to exploration rights in cyberspace to be limited because of this policy. Google suffered a drastic loss that resulted in Google finally resigning from the Chinese market on March 22, 2010. With this Great Firewall policy, the Chinese Government is serious about suppressing the development of Google in China itself by imposing strict censorship of Google.

From the existence of some unfavorable treatment carried out by the Chinese government to Google which incidentally is a large US company by implementing the Great Firewall policy it is not impossible that it makes relations between the two countries experiencing tension due to discriminatory treatment by the Chinese government itself (Yusrizal, 2014).

2. Donald Trump Administration

Each country has the sovereignty to make its own policies. However, that does not mean you can decide on an arbitrary policy. Therefore, a country's economic policy will have an impact on other countries, especially those that have bilateral relations in trade.

During the campaign, Donald Trump delivered several domestic programs or policies that would be implemented when he was elected as the next President of the United States. Donald Trump said he would make domestic economic policies focus on strengthening the climate of domestic entrepreneurs and business people. Donald Trump's domestic economic policy would focus on job creation and tax cuts. United States President Donald Trump put forward a number populist and nationalist policies on his inaugural address. He emphasized that his policy would prioritize the interests of the United States above all else. Armed with the slogan to make America Great Again, Trump is trying to bring the economic condition of the United States for the better.

Donald Trump's government continues to issue policies in order to implement the slogan Make America Great Again. This is based on Donald Trump's desire to make the people of the United States prosperous. One of Trump's ways is to protect the domestic industry by increasing the tax rate of products originating from outside the United States. Where by pressing taxes so that it affects the selling price of products from outside, so that the American public will be more interested in buying local products. With the increase in marketing local products, it can protect domestic producers. Another Trump policy is the reduction of domestic industrial tariffs, so that there will be little barriers to domestic domestic tariffs. In addition, Trump also carries out economic protectionism. Where in Trump's promise, Trump said to raise tariffs on foreign products and set limits on foreign products. Where this is done Trump to provide access for domestic products to dominate the United States market. With this protection policy, food prices will increase so that the price of local products will be more affordable. This will have an impact on increasing domestic income in the United States.

After the election of Trump as American president, at the beginning of time his leadership Trump has issued a policy for foreign products. The policy is raising the tariffs on imports of Chinese products. Trump continues to make policies in accordance with what he promised during the campaign. Where the policy has an impact on causing trade war between the United States and China. A trade war is when countries try to attack trade with one another with taxes and quotas. It is more clearly stated in the economic dictionary that trade war is an economic conflict which is manifested by the imposition of inter-country import restriction policies

(SimulasiKredit.com, 2018). Import restrictions include increasing import duties, prohibiting certain goods from being imported, making the standard of incoming goods higher, certain goods must be tested again and received additional certification. The purpose of this trade war is to harm the trade of nations with one another.

The underlying argument is that in the current global era all things are interrelated and involved so that there is no more complete economic-political domination which then enables the sharing of power and economic domination on all production lines. This confirms that the trade war is actually detrimental to all who involved. Even countries that are not actually involved are also affected by the impact so that it affects the balance sheet trading.

The US-China trade war is likely to continue and there are many interests behind the trade war dispute. Indeed, trade wars have existed for a long time and there is a value of economic - business importance in all the history of trade wars. Profit and loss calculations become a classic issue and therefore no one ever benefits from a trade war because the opponents will surely do the same for the products of their opponents. Therefore, the history of trade wars always ends with negotiations which can provide a win-win solution for all involved.

Donald Trump's call related to the escalation of import tariffs for products from China, especially steel and aluminum, triggered a trade war with the Bamboo Curtain country. Given the United States is a market for steel and aluminum products from China. That is, China is a steel supplier in the United States market. China reacted to the US president's call by doing the same thing. China raised import tariffs on US products, mainly soybeans, wine and fruit. For the United States, China is the largest market so that the United States is the largest supplier for these products in China.

B. Chronology of trade war

The trade wars of the United States and China are heating up, this is because the two giant economies of the world economy no one wants to budge, so this trade war takes place protracted. Therefore, when the United States adopted a policy of raising tariffs on Chinese steel and aluminum products, China chose not to remain silent and immediately responded to the United States. Tensions between the two countries continue. The following chronology of trade war in the form of tariff war between the United States and China.

a. On March 8, 2018, President Donald Trump issued a policy and signed the rules imposing import duties on Chinese products for 25 percent for steel imports and 10 percent specifically for aluminum products. President Donald Trump set import tariffs on Chinese products worth US $ 60 Billion or equivalent to 825.2 Trillion Rupiah.

b. On April 2, 2018, China responded in kind by raising import tariffs by up to 25 percent on US products by $ 3 billion or equal to 41.3 trillion Rupiah for 128 types of consumer goods from the United States such as fruit, nuts, wine, pork, pipes, steel, and aluminum recycled.

c. On April 3, 2018, the United States retaliated against China by releasing a 25 percent import tariff for 1334 Chinese products valued at US $ 50 billion.

d. On April 4, 2018, China again responded by charging the United States with another US $ 48.83 billion import duty on 106 products including soybeans, cars, planes and chemicals.

e. On April 17, 2018, China imposed anti-dumping 178.6 percent on sorghum imports from the United States.

f. On June 15, 2018, the United States revised the initial list of products subject to tariffs including:

1) List 1 imposes a 25 percent tariff on 818 products (from 1,334 products previously) that were valid July 6, 2018;

2) List 2 proposals for the imposition of import tariffs of 284 products including iron / steel products, machinery, electronics and railroad products.

g. On June 16, 2018: China revised the list of 106 United States products subject to a 25 percent tariff to 545 products valued at USD 34 Billion) which took effect on July 6, 2018. China also proposed a 25 percent tariff on 114 products valued at US $ 16 billion.

h. On July 10, 2018, USTR released List 3 covering 6,000 products from China valued at US $ 200 billion that would be subject to a 10 percent tariff.

i. On August 2, 2018: USTR imposed a 25 percent rate on List 3 to target Chinese products worth US $ 200 Billion.

j. On August 3, 2018: China charged a rate of between 5 to 25 percent of 5,207 products from the United States valued at US $ 60 billion for agricultural products, food, textiles, chemicals, iron or steel, machinery, medical equipment, glassware, and paper.

k. On August 7, 2018:

1) USTR revised the imposition of tariffs List 2 of 10 percent to 25 percent which will take effect August 23, 2018.

2) China applies an additional 25 percent reciprocal tariff of US $ 16 billion, which will take effect on August 23, 2018.

l. On August 23, 2018:

1) The United States implemented a 25 percent tariff on 279 products from China (List 2) valued at US

$ 16 billion, covering semiconductor, chemical, plastic, motorcycle, and electric scooter products.

2) China implements a 25 percent tariff on 333 products from the United States (valued at USD 16 billion) which includes coal, copper, fuel, buses, and medical equipment (Munawaroh, 2019).

C. Triggers of the United States and Chinese Trade Wars

1. United States Trade Balance Deficit

This trade war began when President Donald Trump decided and signed a policy of increasing tariffs on Chinese goods, namely steel 25 percent and aluminum 10 percent (Morisson, 2018). President Donald Trump felt that globalization was currently detrimental to the United States. The practice of international trade conducted by China with other trading partners is also considered unfair. This is because China continues to surplus and reap the greatest profits (CNN Indonesia, 2018). Therefore, as a manifestation of the fulfillment of President Donald Trump's promise to reduce the deficit, an increase in import restrictions is made with the realization of policies:

a. Imposing import duties of 25 percent for steel and 10 percent for aluminum;

b. Imposing an additional 25 percent tariff for Chinese technology products;

c. Raise the import tariff target for China by US $ 100 billion.

Below are the 5 (five) countries that contributed to the United States' biggest goods deficit in 2017, as presented in table 3.1.

Number	Countries	Deficit Total
1	China	- 375 billion US $
2	Mexico	- 71 billion US $
3	Japan	- 69 billion US $
4	Germany	- 64 billion US $
5	Vietnam	- 38 billion US $

Table 1 5 (five) countries that contributed to the United States' biggest goods deficit in 2017

Source: Congressional Research Services (2018)

As time went by, the intensity of trade between the two countries became increasingly intense and large, this was also because the United States needed cheap goods for production materials. However, trade with China gradually made the US trade balance deficit soar, and China was the number one contributor to the US goods trade deficit. As presented in table 3.1 above, China ranked first at US $ 375 billion, then Mexico at US $ 71 billion, Japan at US $ 69 billion, Germany at US $ 64 billion, and Vietnam at US $ 38 billion (Morisson, 2018). Balance sheet deficit trade from China was not the first thing for the United States it continued to drag on until the early administration of President Donald Trump the deficit became the largest in history. The following table is the trade deficit of the United States against China in 2000-2017 in US $ Billion,

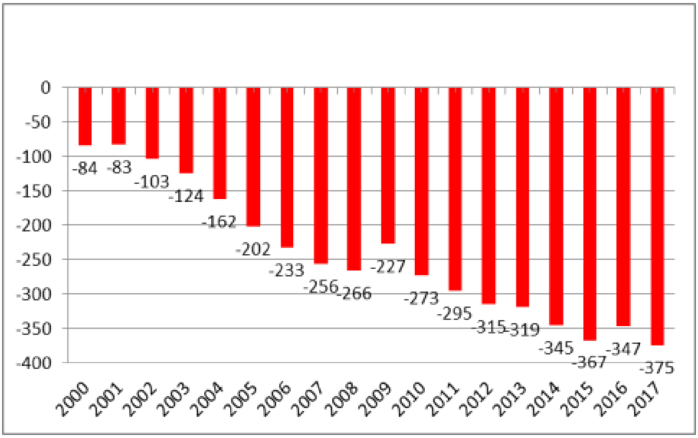

Figure 1. US Trade Deficit Against China 2000-2017 (US $ Billion)

Source: Congressional Research Services (2018)

The United States itself sought to reduce its trade deficit with China which rose to US $ 375.2 billion in 2017 from US $ 347 billion in 2016 (Munawaroh, 2019). Previously in the administration of President Barack Obama, the US trade deficit against China in 2013 amounted to US $ 319 billion ; in 2014 rose to US $ 345 billion; in 2015 it increased to US $ 367 billion; and in 2016 the trade deficit could be reduced to US $ 347 billion; however, in President Donald Trump's first year, the trade deficit rose again to US $ 375 billion (Munawaroh, 2019). Therefore, China has spelled out long enough to harm the United States, so that in 2017 when China's deficit reached its biggest over the past 17 years then as proof of its campaign promises, President Donald Trump raised tariffs on Chinese product duties that triggered a trade war.

2. Theft of Intellectual Property Rights by the China

Commission on the Theft of American Intellectual Property (the Commission on Theft of Intellectual Property Rights of the United States) on March 8, 2018 proposed to President Trump to take strict action against the theft of intellectual property rights and the imposition of transfer of American technology that happening in China. The existence of this report after the agency's data records that 87 percent of the United States has lost intellectual property rights in China every year. Because the theft of intellectual property rights committed by China has caused losses to the United States of US $ 600 billion every year. This report says China is a kingpin of the issue. Of the fake branded goods sold in the United States and confiscated by the government, 87 percent of the goods are from China (Epoch Times Id, 2018).

The accusation of theft of Intellectual Property Rights by China is originated from the concern of US companies regarding unfair trade practices conducted by China to merely succeed the success of a series of goals in the Made in China 2025 policy. So that in August 2017 envoy from USTR, Robert Lighthizer conducted an investigation into alleged theft of intellectual property which included software patents, cell phone applications, and other technologies. It is estimated that the United States lost US $ 50 billion (Clark & Hagan, 2018).

The following are four accusations filed by the United States against China for alleged theft of intellectual property rights which include:

a. Chinese companies force them to forge partnerships which then steal technology and ultimately break the partnership.

b. Chinese companies use government funds to steal US technological innovations and secrets.

c. China uses cyber intrusions into the United States trade network to conduct trade espionage.

d. United States companies operating in China do not have the same copyrights as local companies (Andriyanto, 2018).

From the investigation conducted by the 301 team from USTR, it caused tension between the United States and China. This is evident from the 25 percent import tariff imposed by the US on imported goods from China. The same thing was done by China against the US, namely imposing a 25 percent tariff on imported goods from the US. From this existence finally came a term called a trade war.

D. The Impact of Trade War

The global economy is teetering on the edge. It is still not clear whether it will tip over into outright recession or is merely heading for a period of stagnation. Politicians need to look beyond their short-term national struggles towards the bigger picture of an international economy beginning to buckle under the weight of trade wars fought on multiple fronts.

WTO Director General Roberto Azevedo, said the WTO was experiencing one of the toughest periods because there was a risk that the trade war would cause a decline in global economic growth (Pujayanti, 2018). Azevedo's comments were in line with the increasing trade tension between the US and China, marked application import tariffs between the two countries.

President Donald Trump's policy of implementing import tariffs can backfire for the US. China is not the only country threatened by the suspension of tariffs on steel and aluminum imports. Although it was finally canceled, President Trump also directed his policy towards his main trading partners in the European Union, Argentina, Australia, Brazil, Canada, Mexico and South Korea until May 1, 2018.

The impact of the United States trade war with China could reduce the portion of the global economy as much as the Swiss economy. This was revealed by IMF Managing Director Kristalina Georgiva. "In 2020, the amount of tariffs that have been applied or announced will make global economic growth drop 0.8 percent. This figure is equivalent to the Swiss economy," he said as quoted by CNBC, Friday (10/18/2019).

The trade war between the US and China has been going on for more than 18 months, although the two have carried out various negotiation processes. Both sides, on the other hand, also continue to take action on the tariff retribution for imported products in their respective countries. Although last month, United States President Donald Trump said the two countries had reached a substantive agreement. However, until now this matter is still being questioned because there is no more detailed explanation.

The IMF said in its latest World Economic Outlook that projections show 2019 economic growth of 3.0 percent, down from 3.2 percent in July's forecast. This is largely due to the increasing impact of the US-China trade war. This prediction is the lowest since the financial crisis more than a decade ago. In the World Economic Outlook this October, the IMF also predicted that world economic growth would be 3.4% next year, down 0.2% from last April's projection (Alika, 2019).

Slowing economic growth was driven by a sharp decline in global manufacturing and trade activity which led to higher tariffs. In addition, the uncertainty of long-standing trade policies undermines investment and demand for capital goods. In addition, trade tensions between the US and China will also reduce global Gross Domestic Product (GDP) growth by 0.8% in 2020 (Alika, 2019). Growth in a number of developing countries is also influenced by low productivity levels, while growth in developed countries is influenced by population demographics that are aging.

On the other hand, the automotive industry is also experiencing contractions, such as disruptions to new emission standards in Europe and China that have a long impact. Overall, trade volume growth in the first half of 2019 has fallen by 1%, the weakest since 2012. On the contrary, the growth of the service sector is expected to continue almost all over the world. This makes the labor market and consumption remain healthy in developed countries. Even so, there are signs of softening in the service sector in the US and the European region. The reason is that monetary policy has an important role in supporting the growth of the service sector. At present central banks are easing their monetary policies to reduce the risk of reduced growth due to weakening economic activity. This was also to prevent an increase in inflation expectations. In the absence of monetary stimulus, global growth is expected to be 0.5 points lower in 2019 and 2020. Advanced economic growth is expected to continue to slow to 1.7 percent for 2019 and 2020. Strong labor conditions and policy stimulus are expected to reduce the impact of demand externally weakened. Meanwhile, growth in developing countries has also been revised down to 3.9 percent for 2019 or down compared to 2018 growth of 4.5 percent (Alika, 2019).

Even so, the IMF is still optimistic there are stimulus from developing countries which are projected to be able to encourage economic growth improvement of up to 4.6 percent. This was driven by a lower recession in developing countries such as Argentina, Iran and Turkey. In addition, economic recovery also took place in Brazil, India, Mexico, Russia and Saudi Arabia. However, there is considerable uncertainty in the economies of large countries such as the US, Japan and China which are expected to be much slower in 2020.

The trade war between the US and China has a real impact on the stability of ASEAN member countries, especially in economic matters. This impact is felt mainly by countries that depend on the export activities of the two countries, such as Singapore, Vietnam, Malaysia, and Thailand. Vietnam and Malaysia have the most exports to the US and China, making the two countries more exposed. Moreover, Singapore, Malaysia, and Thailand have a large enough production sector, which is integrated with the global network, so that production activities can be disrupted by the applicable tariffs. However, the application of these tariffs can also give benefit to several countries in ASEAN, such as the Malaysian chemical industry and the Vietnam consumer goods sector. In addition, the tariffs imposed by China on US primary goods can help Thai fruit exporters and Myanmar cattle ranchers to take advantage of the market.

The trade wars of the United States and China made Vietnam a disadvantaged country. The large number of Chinese manufacturers avoiding US customs tariffs is the reason for the wave of production shifts to Vietnam. As a result, in August 2019 the trade surplus of goods in Vietnam with the United States swelled to USD 35.6 billion, up 38% from the same period in 2018 (CNBC Indonesia, 2019).