Role of Economy in Foreign Policy: An Appraisal of US-China Trade War in the Prism of Political Economy

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Abstract
The intertwining of economics and foreign policy has become increasingly evident in the modern geopolitical landscape, with the US-China trade war as a prominent case study. This critical abstract examines the significance of economic considerations in shaping foreign policy decisions, particularly in the context of the US-China trade war, through the lens of political economy. The US-China trade war, initiated in 2018, symbolizes the complex interplay between economic interests and political objectives. At its core, the conflict represents a strategic maneuver by the United States to address longstanding grievances regarding trade imbalances, intellectual property theft, and market access restrictions. Conversely, China’s response reflects its aspiration to assert itself as a global economic powerhouse and safeguard its developmental model against external pressures. Through a political economy perspective, this abstract delves into the multifaceted dynamics driving the US-China trade war. Economic theories, such as mercantilism and comparative advantage, offer insights into the motivations behind both nations’ protectionist measures and tariff escalations. Moreover, the abstract evaluates the efficacy of economic coercion as a foreign policy tool and its implications for international relations. While tariffs and trade barriers can pressure adversaries, they also entail risks, such as retaliatory measures, economic volatility, and unintended consequences. Additionally, the abstract examines the role of domestic politics and interest groups in shaping the trajectory of the trade war, highlighting the interplay between economic nationalism, electoral dynamics, and policy formulation.

Keywords: US-China Trade War, Political Economy, Foreign Policy and War.

Introduction
In the contemporary world, no state can remain isolated from international issues due to the complex nature of interdependence that states have been interwoven in as the result of political, social, economic, and technological advancement. States, therefore, are easily affected more often by shifts in international affairs. Thus, present world affairs are mostly, if not completely, the foreign policy-driven consequences.

According to James Rosenau' foreign policy is a phenomenon that contains many definitions, and the main idea of all such definitions "consists of all the attitudes and activities through which
organized national societies (states) seek to cope with and benefit from their international environment (international system)” (Rosenau, 1970). Foreign policy is the decisions that high-level decision-makers—heads of the state and heads of bureaucratic and intelligence institutions—of any state take to achieve maximum national interests in their relations with other states. A state's foreign policy: policy The foreign policy is made based on some principles, methods, strategies, guidelines, and so on to promote or obtain what is necessary for the state's survival or for sustainability and prosperity. Additionally, the main goal of foreign policy is to advance and defend a state’s primary and secondary interests in its dealings with other states of the world (Jackson & Sorensen, 2013). Generally, some of the major primary and secondary interests of a state in the international system include, first and foremost, ensuring the state's survival, ensuring its territorial integrity and political independence from external forces, ensuring its national interests and the safety and security of nationals across the world and to establish cooperative foreign relations to develop the economic conditions of the state. A state's foreign policy is influenced by several factors, such as its geography and geopolitics, ideology, history, leadership and diplomatic constraints, economic conditions, public opinion, and so on. Like all the other determinants of foreign policy, the economy is one of the major factors that cause foreign policy shifts and complete or partial changes in the state's behavior in the international system. The economy is one of the cardinal elements in both foreign policymaking and the foreign policy implementation processes. The states with bigger economies and political say in the international system try to sustain the global status quo, and mostly, the bigger economies formulate international agendas in international regimes and organizations (Collins, 2010).

Economy As Foreign Policy Determinant
The economy is one of the internal or real factors that impact a state's foreign policy a state. To put it, the economy is basically the general phenomenon for the system of organizations and institutionalized form of production of goods and services and their distribution in society. On a major level, states play an important role in furthering the economic interests of their society in the international system, and that is possible through economic trade agreements. So, the more economic-based foreign policies, the more economic development within the state. Since the industrial revolution, states turned towards mass production, causing a surplus in their products that devalued the product's prices. Thus, to sustain a profit chain in the economic system, states, particularly European industrial states, begin searching for new markets. Territorial expansions during the era of imperialism were some major steps by European states driven by economic incentives. British economic superiority led Great Britain to enhance its naval military capabilities and rule the world for more than two hundred years. Such as Britain's two Opium Wars with China (1839-42 and 1956-60) and the aftermath treaties based on Great Britain's economic privileges (Pletcher, 2018).

Role of Economy in Foreign Policy Development
Even today, the economy plays an important role in foreign policy, and it is one of the major determinants of foreign policy. Weak states with weak economies have less influence in international affairs. Meanwhile, major economic powers are more likely to engage in global events. Industrialized states are more likely to be involved in every aspect of the international system, which would benefit the state's economic development (Chander & Arora, 1990). Industrially developed nations, such as the United States, China, Japan, and Germany, are deeply
involved in relations with states with more natural resources. The trend depicts that the economy has a greater role in shaping the states' foreign policy.

An instance of the economic factors that compelled foreign policymakers in Japan to think about the state’s foreign policy was when, in 1992, Japan had to decide whether to allow Sushi imports from California, which was about to affect Japan's long-established ban on importing rice to maintain self-sufficiency in Japan's staple food (Goldstein & Pevehouse, 2014).

The establishment of the European Union was also driven by the economic purpose of the common market by the then-known Union of the European Economic Committee (EEC). In 1950, the European Coal and Steel Community was initiated to unite European states economically and politically to secure lasting peace in Europe after World War II (Petzina et al., 1981). Belgium, France, Germany, Italy, Luxembourg, and the Netherlands were the founding states that took the initiative in Europe. Today, it has become the only supranational entity in the world. This ultimately changed the whole European attitude toward their foreign policies, and today, their foreign policy is based on a mutually agreed set of principles. The policies led by economic aspects led to European political integration.

Economic aid is a major means of foreign policy implementation and national interest achievement by developed states. Such as the Marshal Plan during the initial days of the Cold War to the Eastern European states was the promotion of US foreign policy implementation. Foreign policy backed by foreign aid is an effective tool for economically prosperous states to advance their national interests. States' internal economic activities lead to obtaining relative foreign policies. States with high production have to acquire more natural resources. Therefore, they try to develop foreign policies to seek more resources and consumer markets. The former aims to sustain and further expand production on domestic and international levels, and the latter aims to increase the state's exports, ultimately enhancing state international reserves.

**Importance of Economy in Foreign Policy Making Process**

States project some actions internationally because government officials have already made the decisions for such actions. Foreign policy making is that process of decision-making. Most stakeholders, such as the bureaucracy, interest groups, military-industrial complex, and public opinion, start to influence the decision-making process (Goldstein & Pevehouse, 2014). Most of these stakeholders are backed by personal interests grounded in economic incentives, thus trying to mold the states' foreign policy as much as that can be advantageous for their cause. Formulating a state's foreign policy is almost complete with estimating its economic strengths and constraints. Economically stable states are more likely to have more comprehensive foreign policy options based on cost and benefit analysis. Economically developed states may hire private institutions or renowned think tanks to research foreign policies that favor the states' national interests (Wayne, 2000). Organizations such as the council on foreign relations, Brookings institution, center for strategic and international studies, Carnegie Endowment for International Peace, and others help formulate foreign policy in the United States. However, foreign policy formulation in economically weak states is more likely to have a weaker assessment of the economic perspective; thus, it faces several issues. Iraq's invasion of Kuwait in 1990 was for the achievement of financial stability in the country, which had already deteriorated due to eight years of war with Iran. However, it further led Western states to put economic sanctions in place, worsening the state's economic conditions (Kamrava, 2005).

Economic incentives are a tool for the implementation of foreign policy. Economically prosperous states like the United States USAID and the United Kingdom UKAID are their financial assistance
programs in several countries. Such steps help the major states influence weaker states' foreign and domestic policies but also help influence public opinion worldwide (Jackson & Sorensen, 2013).

Contemporary China's growing influence in international affairs is due to its economy. China is now acknowledged as a growing political, social, and economic power worldwide (Lanteigne, 2009). This contemporary expanding economy supported Chinese trade policies and supported the whole Chinese rise. It is due to the Chinese economic reforms that caused China to take further international steps to improve its production capabilities during the Dengist reforms in the 1970s. Before the 1970s, China had a negligible effect on the global economy (Lanteigne, 2009). The current economic status of China and the importance of the economy in determining foreign policy is the Chinese ground-breaking connectivity planes throughout the world's resource, product, and consumer markets. One of China's recent foreign policies has also been motivated and driven by its internal economic conditions: the "One Road One Belt Initiative." The biggest ever Chinese project to pool more than 60 states of the world, which would ultimately link China to Central Asia, West Asia, and parts of South Asia via railway lines, oil and gas supply lines, and maritime navigations (Jinchen, 2016). Those routes are going to form a tri-continental connection between Europe, Africa, and Asia in the near future.

However, not all economic initiatives are positive. Sometimes, these are used to hurt the other states' economies, most commonly by adopting protectionist trade policies against the different states. This leads to a trade war between states when affected states take a similar stance against the protectionist state in response.

**Trade War: Foreign Relations and States Economic Policy**

'Trade War' is common politico-economic jargon mostly used to describe a situation where two or more two states engage in economic or trade discrepancies. Such a situation becomes more visible, especially when states adopt economic policies that include trade barriers, especially to bar targeted state's products from entering one's domestic market. A state's foreign economic policy following the stated pattern is commonly known as 'Protectionism,' a term used to describe its economic policy to protect its domestic industries from adverse impacts of imports. Trade barriers, most commonly, include high tariffs, antidumping duties, quotas, and health and safety standardization against products of the targeted states. In modern international politics, foreign policy initiatives that include trade barriers are common tools to secure states' vital economic interests, which, in one way or another, economically weakens the opponent state. Additionally, the trade barriers indicate a trade war between states, particularly when the states engage in a chain of trade or investment barriers against each other. Besides weakening the opponent state's economic power, the trade war has several implications for a state's overall economic situation and the global economy in general.

There are few basic indications of a trade war between states. It always ignites with the rhetoric of trade discriminatory policies or manipulation and can end in four suggested outcomes: cold war, compromise, frozen trade war, and hot war (Kapustina et al., 2020). Initially, the trade war starts with the protectionist economic policies of one state against the other and when the other state adopts similar economic policies against the protectionist state. As a result, there can be two outcomes of the policies adopted by the affected state; it might start a trade war between both states with a chain of policies to hurt or to equalize the economic equilibrium. On the contrary, it might lead to a step towards new trade negotiations between both parties. Figure 1 defines the phenomenon and its possible outcomes.
The immediate implications of the protectionist trade policies are discussed in the arrow. First and foremost, a protectionist policy implies a drop in exports of the targeted state. This compels the state to take similar measures to stop the economic loss by barring imports and capital outflow from the state. Similar economic policies are the one way to return to the status quo. Because the trade imbalance can be reciprocated by barring or taxing the goods and services of the particular state. However, as the protectionist state wants to gain some economic benefits, it tries to exacerbate the economic condition of the targeted state and gain economic profit. This leads the state to impose new tariffs or barriers on the targeted state’s goods and services. As a result, either a trade war begins between both states or a new trade policy is negotiated and agreed upon by both parties through some compromise and concessions.

Trade war generally has positive and negative impacts on the state and global economy. The positive aspect is also short-run for the protectionist state. One of the most common positive impacts of trade barriers or overall trade war on a state’s economy is that it reduces the capital outflow of a country into the targeted state because the investors face high production costs in the market of the targeted state. Similarly, an imposing state, in one way or another, paves the way for investment within its domestic market, further paving the way for job opportunities. On the other hand, the adverse effect is that such a state has to face similar economic barriers. In other words, domestically, states can protect their internal production markets, yet they face a decline in foreign trade in response.

Globally, the trade war between the two states provides new avenues for investment in new emerging markets or hurts the overall global economic pace. Especially in the case of a trade war between global economic giants, it causes economic uncertainties. For example, the trade war between the U.S. and China is the latest economic shock that the global economy faces. Due to trade discrepancies between both states, the U.S. imposed heavy duties on imports of Chinese goods, and China adopted similar policies. This caused a trade war between both states.
economic discrepancies led to this war. However, the causes are far more complex than mere economic issues.

**US-China Trade War Causes**

How did the economic policies turn into a trade war between the U.S. and China even though the U.S. imposed tariffs on the products of different states, including the European Union and Canada? In 2017, the U.S. refused to recognize China as a market economy, a status given to China by WTO that year. Newly elected President Donald Trump had already accused China of manipulating its currency to achieve a competitive advantage; during his presidential campaign 2016, he repeatedly mentioned his harsh economic policies against China (BBC, 2016). President Trump's economic policies were implemented in the second half of 2018 when the U.S. imposed safeguard tariffs on final products and raw materials. However, the signs of an upcoming trade war between the U.S. and China began to surface in March 2018 when U.S. President Donald Trump approved a tariff against Chinese steel and aluminum imports. Consequently, a probe against China was launched by the U.S. to evaluate Chinese trade practices; as a result, the U.S. accused China of unfair trade policies and exploitation of trade liberalization, such as through subsidizing domestic products, currency devaluation, and scientific and technological theft. However, the tariff increase was based on the theft of intellectual property rights. Although it seemed to be more of an economic policy of the U.S., this ultimately ignited a trade war between the U.S. and China. In doing so, the U.S. faced high tariffs from China on several products as a retaliatory measure. For instance, China took the issue to the World Trade Organization's trade dispute settlement body against the U.S. over tariff raise for further consultation.

**US-China Trade War Timeline**

From February to April 2018, the U.S. imposed 10-30% tariffs on importing different products. At the same time, to stop the US FDI outflow, the Trump administration restricted U.S. companies from investing in different Chinese technological sectors, including technology related to aerospace, communication, and I.T. (Kapustina et al., 2020). In response to the U.S. move, China also raised import tariffs by 15-25% on 128 products and 178.6% antidumping tax on U.S. Sorghum exports. Later, in July 2018, the U.S. again imposed a 25% tariff on 818 products worth $34 billion. China also imposed a 25% tariff on 545 items worth $34 billion to reciprocate the U.S. move. In August 2018, the U.S. once again imposed a 25% tariff on 279 products worth $16 billion, and China also reciprocated the same act on 333 items of equal worth. In September of the year, the U.S. imposed a 10% tariff on imports from China worth $200, which was subject to increase by up to 25% in 2019. China also responded with a 5-10% tariff on imports worth $60 billion. December 2018 was when both states restrained from imposing further tariffs on their imports. Rather, China lowered the tariff on the automobile sector from 25% to 15%. It was because both states in the G-20 Summit agreed not to increase tariffs for the upcoming 3 months. From May to June 2019, the U.S. again raised the previous 10% tariff to 25% on $200 billion worth of import products.

Similarly, China raised tariffs on $60 billion worth of imports from the previous 10% and 5% to 25-20% and 10%. Once again, as an agreement of the G-20 summit between both states, the trade war ended in 2019 for the time being when both China and the U.S. agreed not to increase further tariffs. As a result, the U.S. excluded 110 products from the 25% tariff list, and China also announced its plan to increase the import of agricultural products from the U.S.
The situation again changed between both states as the U.S. accused China of currency manipulation, and on the other hand, Chinese companies stopped buying U.S. agricultural products. The U.S. imposed further tariffs on products worth $125 billion. This was followed by a Chinese tariff on U.S. products worth $75 billion. Both states then exempted some of the products as they impacted their domestic economy.

Why Did the Trade War Start Between Both States?
The trade war between the U.S. and China resulted from U.S. foreign policy objectives to maintain U.S. dominance in global political, economic, and all other strategic affairs. Meanwhile, the U.S. economic dominance had been threatened by rising Chinese economic status and engagement in the world, as well as resultant China’s balance of trade surplus against the U.S. Defining the causes of Sino-US trade war Kapustina et al. (2020) found four main reasons that caused a trade war between the two economic giants. Among those reasons, two were domestic, and the others were associated with counting China. The domestic causes defined were that the U.S. wanted to reduce its trade deficit, job creation, and federal budget deficit. However, the foreign reasons were to prevent Chinese technological advancement and the prevention of Chinese military capability (Kapustina et al., 2020). China's market economy status meant more foreign investment in the country, where many American investors had already outsourced their production, and this could have led many others to join the list. This has already impacted the U.S. economy and job opportunities in the country. So, to control production, outflow, and domestic job creation, the U.S. responds by adopting protectionist policies.
The trade war policies revolved mostly around tariff increases on products initiated by the U.S. and reciprocated by China, however, after approval from WTO rulings. The trade war also banned some Chinese tech companies, such as Hawaii, from investing in the U.S.
The Trump administration's strategy has a trade war with China showing no signs of easing; U.S. intelligence agencies fear Beijing is linking the trade issue to a larger challenge to American interests and power, including the South China Sea, artificial intelligence, and cyberspace. Moreover, this shows that the U.S. has challenges that are different from China's because of emerging power. China is also trying to overlap the American world order through investment and providing trade and aid to small states. Therefore, Chinese tactics have evolved to include outright cyberespionage campaigns, including one uncovered last week at China's top engineering institution, Tsinghua University.
However, President Trump has acknowledged that China was able to build up an enduring trade surplus and steal American technology because previous administrations failed to focus on the trade issue and maintain pressure on Beijing (Boylan, 2018).
Additionally, the U.S. and China have agreed to hold a talk "in the coming days" to review the process of their phase one trade deal, stated Gao Feng, the Chinese ministry of commerce spokesman, at a weekly media briefing held online. Gao did not give further details. However, on the same day, the US Trump administration eliminated there was any plan to talk with China. The U.S. Trade Representative's office did not respond to queries about plans to review the trade deal. As of this news update, a new meeting date has yet to be scheduled.
Nevertheless, according to White House economic adviser Larry Kudlow, the Trump administration's strategy remains to engage with Beijing in implementing their war of trade deal. Moreover, the U.S. government has announced it would suspend or terminate three bilateral agreements with Hong Kong due to many covering the surrender of fugitive offenders, the transfer of sentenced persons, and reciprocal tax exemptions on income derived from the international
operation of ships. Thus, the extension or suspension of the reciprocal tax agreement implies that Hong Kong-registered shipping firms, which derive transport income from the U.S., may be subject to U.S. taxes on their gross income. Markets think this will increase the cost of trade and add uncertainty and anxiety to trade and logistics industries in China (Koty, 2019).

Additionally, China and the U.S. have a plan of action that overlaps each other for the international liberal order. Moreover, the U.S. and China postponed the review of their deal trade scheduled for August 15, 2020 – roughly half a year after January 15, 2020, when the two countries signed the deal. It is unclear why the initial video conference between U.S. trade representative Robert Lighthizer, US treasury secretary Steven Mnuchin, and Chinese vice president Liu He was postponed. So far, no fixed date for the review has been announced.

China's imports of U.S. agricultural and manufactured goods, energy, and services are well known for fulfilling the agreed timeline. China has committed to buy at least US$200 billion worth of U.S. goods and services during 2020 and 2021. In the first half of 2020, China bought less than a quarter of the annual targeted amount of U.S. goods agreed under the deal, although it purchases of U.S. farm and energy products in recent weeks. The U.S. customs and border protection (CBP) requires that goods produced in Hong Kong and exported to the U.S. be marked to indicate their origin is "China" after September 25, 2020. Goods that fail to comply with this rule will face a punitive duty of 10 percent ad valorem at U.S. Ports (Koty, 2019).

The current Biden administration has yet to fix or make any changes to tariff structures and is also examining the period of the One trade deal. Wang Yi, the Chinese foreign minister, recently demanded from President Joe Biden to restart talks with China to remove tariffs and sanctions. Wang pointed out while expressing his view to the media saying that the United States has greatly diminished bilateral talks at all levels.

Moreover, while talks to discuss the trade war have yet to materialize, at the end of February, Biden signed an executive order to analyze global supply chains in four industries strongly affected by the pandemic last year. These include computer chips, large-capacity electric vehicle batteries, pharmaceuticals, and critical minerals in electronics. The semiconductor industry faced serious bottlenecks when Chinese factories were in lockdown at the outset of the global pandemic. The U.S.-China trade war also hit these industries, and the two external shocks led many C-suite executives to reassess their firms' global supply chain resilience.

Biden's new strategy and plan of action for the supply chain strategy will require 100-day reviews for producers and distributors in these critical industries, and a year-long review of supply chains in six broader industries. The main purpose of the reviews is to understand to what extent industries are at risk and eventually induce industries at risk to move suppliers out of risky circumstances or locations. How the Biden administration will change supply chain structures is still being determined. For its part, China has kept that the semiconductor industry requires global cooperation for healthy growth, but it would also like to increase self-sufficiency in competitive technologies.

However, the supply chain review results can be used to enter into conversations with China regarding existing supply chains. However, U.S. trade officials have not asserted that this will be used as a jumping-off point to review the conditions of the trade war. Until the trade war is resolved, losses from higher costs will continue to mount. High U.S. tariffs remain on $370 billion of products imported from China. These cover a wide range of goods, from machinery parts to seafood. Moreover, the U.S. is concerned about Chinese investment and trade with world states because China wants to develop integration and cooperation among the regional and international states. Thus, China is also eager to establishment a Chinese world order, which is not in favor of
the U.S. That's why the U.S. wants to sustain or eliminate Chinese influence throughout the world (Hsu, 2021).

**Conclusion**

Foreign policy is the decisions states take to achieve national interest in their relations with the other states in the international system. Though these interests vary from state to state, they ultimately lead to economic prosperity and advancement in a state's military capability. Therefore, while formulating foreign policy, the economy plays an important role. It can be the reason for a foreign policy initiative or exercised as a means of foreign policy implementation. Thus, more economically prosperous states have a major role in determining international agenda, and less powerful states have a responsive role towards their initiated narrative. While making foreign policy, states estimate their internal economic strength and accordingly determine their foreign policy directions. Moreover, the economic prosperity of a state means more options for projecting a successful foreign policy by providing economic incentives to the stakeholders or investing in the areas of interest in the regions to achieve foreign policy goals. Therefore, the economy plays an important role in the overall state's foreign policy behavior and even during foreign policy-making.

The recent trade war between China and the U.S. is a major example of the economy determining the state's foreign policy. The major reason for the trade war is the economic development of China and the way Chinese products dominate world markets due to their affordably low prices compared to the other producers. The reasons are the Chinese labor force and industrial productivity, which gives Chinese products a comparative advantage over others and incentivizes its products for export and foreign investment. The decades of export, on the one hand, have caused a Chinese trade balance surplus and rapid growth in Chinese economic power. Ultimately, this economic power has enabled China to invest in emerging economies in their infrastructure, energy, and other economic sector development projects, leading to Chinese economic influence worldwide. The U.S. also had to face the challenge of a trade deficit with China. Pushing the U.S. economically on weaker points bit by bit. Thus, the trade war seems more of a U.S. endeavor to muddle through this challenge. Therefore, adopting protectionism over free trade with China.

**References**


