

Different Emotions in the USA-China Trade War

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Emotions in State Behaviour

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Introduction

China is the second-largest economy by Gross Domestic Product (GDP) (IMF 2024). The United States of America (USA) is one of the top export markets for China for the cost competitiveness of Chinese products. The imports from China grew from \$485 billion in 2014 to \$558 billion in 2018 (Siripurapu and Berman 2023b). This ‘China Shock’ resulted in manufacturing job losses and a trade deficit for the US. It accused China of unfair trade practices like subsidizing local industries, manipulating currency by accumulating dollars, and stealing technologies. The Chinese telecommunication companies were accused of threatening national security through espionage and intellectual property theft. Given these developments, America imposed 25% duties on \$34 billion in imports from China in July 2018 (Mullen 2022). It was followed by additional 25% duties on a set of \$16 billion worth of commodities like orange juice (ibid). China retaliated by imposing the same tariff on US imports.

By the end of 2019, the US had imposed tariffs on \$450 billion worth of imports, and China had imposed the same tariffs on \$170 billion in imports by value (BBC News 2020). Amidst the onset of the Covid-19 pandemic, both countries signed a phase-one deal to ease tariffs gradually. The further developments were followed by short-term steps like allowing selected goods, halving tariffs for a few months, etc. Both sides took cautionary steps and relied on either simultaneous or reciprocal lowering of trade barriers. The trade talks are in process, and both parties have refrained from making long-term commitments. The Chinese front continues to urge the US to roll back additional tariffs.

2024 is the year of the Presidential election and holds great significance for the future of USA-China trade relations. The probability of Donald Trump returning to power brings unpredictability to the process and event.

History of the trade relations

The United States of America (USA) and the People's Republic of China (PRC) represent complex bilateral relations. The USA had supported the exiled government formed in Taipei after the Second World War. Henry Kissinger's secret trip to China in 1971 marked the beginning of normalisation of the relations (Garrison 2000, 123). In 1972, US President Richard Nixon visited China and signed the Shanghai Communique, setting up a stage for normalising ties. It led to full diplomatic relations between both countries. Tiananmen Square Massacre, Taiwan's Presidential Vote (1996) and Belgrade Embassy bombings further severed the ties. The US-China Relations Act of 2000 started the trade relations, and in 2001, China became a member of the World Trade Organisation (WTO). As China became the world's second-largest economy in 2010, the US trade deficit with China touched \$295.5 billion. Trade restrictions started to creep in by limiting China's export of rare earths and alleged trade technology theft issues. Hence, the US-China engagements have not followed a predictable path and remain so.

Theoretical Frameworks

Herbert Simon (1957) introduced the idea of bounded rationality (Selten 1990, 649). It is related to the decision-making process in which individuals or organisations have multiple objectives to pursue. However, the environment they operate in is too complex to be examined at the same time, given the cognitive limitations. Hence, the decision maker apply heuristic procedure to consider the consequences. It leads to humans adopting a satisficing path rather than an optimising strategy. (Dequech 2001). Thus, humans are intendedly rational, but only limitedly (Simon 1957, as quoted in, Selten 1990).

In the case of the USA-China trade war, economists argued that the increase in Chinese imports has wiped off 2 million jobs in America (Autor, Dorn, and Hanson 2016). It

further increased the trade deficit with China. Hence, as a rational actor, the US took this move to minimize its losses and status as a world power with respect to a foreign actor. It can be perceived as a purely pragmatic and rational approach from the US perspective. Bounded rationality starts coming into the picture as the trade war unfolds. The American move might not have considered what if China pursued retaliatory tariffs. During that phase, the state's behavioural approach was to minimize the impact of cheap Chinese imports from the US economy (Siripurapu and Berman 2023). As a result of the bounded rationality, the cost has been borne by both nations. The US real income declined by \$1.4 billion per month between 2018 and 2019 (Amiti, Redding, Weinstein 2019, 22). It cannot be undermined that the USA-China were driven by their respective rationality.

In foreign policy, the rational actor model explains the path a country takes. Foreign policy goals drive the alternative decisions and prioritisation of a path. One of the goals of the USA's foreign policy is to protect the United States and Americans (US Department of State Archive). It includes economic prosperity and security. Notably, the goal comprises negotiating trade agreements to sell American goods and services abroad, protecting intellectual property rights, and promoting free market economies. Considering the foreign policy goals, the US decision-makers acted rationally. Here, the national interest was a limiting factor to the bounded rationality.

International free trade relations have been explored, both in terms of faith and fear. The faith comes from the long-term economic trade theory proposing that exports enhance welfare and income for countries. International trade is driven by comparative advantage, which improves a country's consumption standards, income, and employment opportunities. Johnson (1954), as cited in the World Trade Report 2009, argued that trade policy decisions are driven by anticipated increases in national income. At the same time, there is an underlying apprehension about to what extent trade be made free. The inherent question of

losing out on local job opportunities and being import-dependent drives countries' fear of subjugation by a relatively powerful economy. America has been a propagator of free economies, but trade deficit with China represented the emotion of fear. The fear was about losing the edge over China, economically.

Prisoner's Dilemma

Prisoner's Dilemma was devised by Mathematicians Merrill Flood and Melvin Dresher (Khadjavi and Lange 2013). It is a paradox in decision making where acting in self-interest does not result in an optimal outcome (Picardo 2024). This trade war represents a classic case of a Prisoner's Dilemma where mutual cooperation provides the best outcome for both parties. The unattractive outcome is the mutual defection that happened in the USA-China trade war. Prisoner's Dilemma is a part of the Behavioral Game Theory that comprises both psychology and emotions. The positive emotion includes empathy, and the negative emotions involved are anger and retaliation. The negative emotions invoked by headlines like "*China is the frequent target of Donald Trump's anger*", and China responded by saying that it will *retaliate* (Fairchild 2019a). In this case, while positive emotions could have led to cooperation and free trade, negative emotions took over, causing the trade war. Trade sanctions in the US-China relations were associated with negative feelings, and policymakers on both sides felt negatively about it given the history (Crawford 2000,142). The USA and China followed a tit-for-tat strategy. It resulted in hurting both economies along with the global economy. The parties had two available strategies: to impose tariffs and to maintain free trade. Under the condition of imperfect information, the USA was unaware of the motivations behind China's trade policy and the effect of a decline in exports on the Chinese economy. The problem with tit-for-tat is that it can easily go out of control. Thus, the payoffs received by the USA will vary depending upon the Chinese move, be it tactical or aggressive.

An underlying assumption in game theory is that actors act rationally (Sensat 1997, 380). However, China's past actions have been viewed as irrational and against the rule-based international order by the USA. This difference along with negative emotions escalated the trade war.

Collective Unconscious

From the Chinese viewpoint, the collective unconscious played a significant role in invoking the emotion of humiliation. According to the concept of collective unconscious, it is a part of the psyche negatively distinguished from the personal unconscious by the fact that it is not a personally lived experience (Boechat n.d.). It owes its existence to heredity and the culture one is born in.

Deriving from the concept of the collective unconscious, the Chinese citizens' deduction of not being bullied by a Western power represents collective rationality. The US decision is seen as an attempt of domination over China, shows a position made by a collective identity. It is an indication of the Chinese collective entity, no matter temporary or permanent.

Discussion

Klein (1991) defines humiliation as "the experience of contempt, ridicule, or degrading at the hands of others". It is implied that humiliation causes damage to the identity and the sense of self. China's humiliation is linked to losing control of territories at the hands of foreigners. This feeling drives an apprehension in China that the international system is against them. The tariff became the instrument of trust betrayal from their perspective. If it does not retaliate, the international system will bully them. Subjugation is argued to be a condition for humiliation (Liftman 2011,2). Within the emotion of humiliation, this case represents the attempt to lower the status of China (Badie 2019). In this case, economic

sanctions were perceived as humiliation as they were targeted at disempowering people (Liftman 2011, 3). Such tariffs intended to make Chinese imports in the US expensive, leading to lower production and income in China. The reaction can be analysed as a non-violent reaction to humiliation. It also keeps the subjugation anger alive among its citizens and uses it to justify all its actions in the public sphere.

The bilateral relations between the USA and China are marked by mutual distrust (Lieberthal and Jisi 2012). The study of how Chinese people perceived the trade war has been studied. Su (2019) observed that it brought back the thoughts of ‘national humiliation’ in the Chinese psyche. The collective consciousness of how British and French troops ravaged and looted the country during the Second Opium War (1860) influenced the thought process of its citizens. The historical state narrative of the century of humiliation shaped China’s retaliatory tariff measures. The century of humiliation was a period between 1839 and 1949 when China lost control over a large part of its territories at the hands of foreign actors (Kaufman 2011,2). The century of humiliation brought three kinds of indignities: loss of territory, loss of control over internal and external environment, and loss of international standing and dignity (ibid). It shapes the current Chinese narrative of insecurity against foreign entities. There is an apparent fear that a weak China is vulnerable to exploitation by Western states and it is an opportunity to teach the US a lesson to be polite (Chunshan 2018). The Chinese citizens apply this narrative in this context. The idea of “*wu wang guo chi*” evokes historic discrimination through unequal trade treaties and balanced trade demands representing their ability to resist external pressure(Su 2019). Trump’s statement that “we have rebuilt China” provoked the humiliation narrative once again (White House National Archives 2020, 9).

At the same time, a lack of trust was prevalent on both sides. Farrell and Knight (2003) argue that parties with a set of expectations expect each other to behave appropriately regarding an issue. They define trust as set of expectations that parties will behave in an

appropriate manner. In this case, the issue was bilateral trade, and sudden tariffs were not the expected manner. Trust is built by repeated compliance with rules (Lebow 2013). When the history of state engagements between the US and China is studied, there are clear ebbs and flows. It has been marked by differences and breakdown of dialogues. There is no predictably compliant trajectory of relations between these states. Issues like Taiwan, intellectual property, and human rights discourse are among the factors impacting the trust.

Historical experiences of the country shape their strategic decisions. Since the constant distrust marked the erstwhile USSR and the USA tussle for power, the US still is driven by the catch phrase: Trust, but Verify. Predictability and discipline towards following rules are essential in building trust among states. The US President's decisions were largely perceived as flip-flopping, leading to confusion. Trust and cooperation are integral for a fair partnership among states. Inconsistent and mixed messages by states negatively impact trust. The Chinese termed this instability and confusion as being in a 'forever war' (Fairchild 2019b). The current scenario of short-term cautious steps reduces the legitimacy of cooperation. The trade war, like a conventional war, involves three values- cooperation, defection, and trust (Rohner, Thoenig, and Zilibotti 2012). It is interesting to note that all these values have an implication for national security. Both countries assessed risk to honour and saw no incentive not to retaliate. The Chinese narrative is honour-based, and defection is not a norm. The American allegation and unilateral import duties were perceived as defection by the Chinese. As a result, cooperation and trust were compromised. The phenomenon has its own spiral effect. If one of the parties continued to trust the other party, the trust could have been termed as misplaced. Misplaced trust can lead to domination of one state by the other, and fear among leaders of being exploited by the other state (Hoffman 2006, 35).

The narrative building phenomenon during the trade war stood out. While both countries projected each other as irrational actors, they justified their respective decisions as

rational. Irrationality in international relations indicate incompatibility with the existing international consensus or policy goals. China was projected as an unfair trade partner violating the established international rule based order. At the same time, a lot was being written about America, indicating its love for economic and military sanctions. The US has used economic power to coerce and punish less powerful states like Iran and Cuba. President Woodrow Wilson popularized it as a tool of coercive diplomacy. Miyagawa (1992) argues that there are hidden outcomes of such sanctions, and the primary emotion/ intent is punishment. The respective narratives were being used to justify the irrationally rational decisions of both parties.

Conclusion

International relations and trade are governed by humans and emotions are central to human existence. The mode of expressing emotions differs in different cultures. However, it cannot be alienated from world politics. The USA-China trade war started as an economic concern, but it escalated into an ego war between the two economies. It involved basic psychological concepts like ego, rationality, irrationality, trust, cooperation, and humiliation. The process created an entire set of 'bystander countries' who observed it unfolding. The idea behind such observation was to create an economic opportunity for themselves. How a country perceives itself as a group has a significant impact on its economic decisions. As a spin-off, China has faced economic setbacks in other countries like India as well. The trust deficit between the US and China remains and the economic war is far from over. China has accused the US of using economic sanctions against rules. Ironically, the same country continues to subjugate relatively smaller economies through its Belt and Road initiative. Interestingly, the year 2024 could prove to be an eventful year with the Presidential election scheduled. It leaves a scope for analysing this trade war from many other states' emotional lenses in the future.

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