

# United States of America – China Trade War: Challenge and Opportunity for Indonesian National Resilience

Istiana Rahatmawati\*  
University of Pembangunan Nasional “Veteran”  
Yogyakarta  
rahatmawati@gmail.com

Sri Muryantini  
University of Pembangunan Nasional “Veteran”  
Yogyakarta  
sri.muryantini@upnyk.ac.id

**Abstract.** This research will explain the trade war between the United States and China that has an impact on opportunities and challenges for Indonesia's national resilience. This research is exploratory qualitative research. Data collection was done through Focus Group Discussion (FGD)—“Discussion US foreign Policy” and “Chinese foreign policy”, depth interviews with a competent source (the Republic of Indonesia Trade Department staff), and supported by secondary data in the form of related information documents with this research (BPS, printed books, electronic books, scientific articles, scientific journal, and interest sites). The explanation of the phenomenon using the theory of Rational Choice on Protectionism and the National Resilience Concept to determine the impact and its challenge and opportunity on Indonesian National Resilience. The theory used to explain the phenomena that occur between the United States and China is the Theory of Rational Choice and Protectionism and uses the concept of national resilience to determine its impact on Indonesia. As the two-giant economies in the world, the United States and China have an important role in the global economy, the trade war that occurred between the two countries not only affected both countries but also other countries involved as part of the supply chain. In this case, as raw material supplier countries and target markets for US and Chinese products. The enactment of the tariff war led to markets left by the United States and China and this was an opportunity and challenge for Indonesia to strengthen national resilience. The expected results of this research are the various challenges and opportunities that can be captured from the impact of the American trade war with China in order to strengthen Indonesia's national resilience.

**Keywords:** *United States of America, China, trade war, challenge and opportunity, Indonesian national resilience*

## INTRODUCTION

The face of the 21st Century Global economy gave birth to the concept of cooperation between countries in accordance with the interests of each country. All countries both developing and developed countries need a pattern of cooperative relations in order to benefit from the integration of the 21<sup>st</sup>-century economy. Therefore, the actions and reactions of foreign policy decisions of all countries, both outward and inward-oriented, aim to increase their country's income and gain a *maximum advantage* to strengthen their economies. When economic conditions are strong and influential, the level of *power* and domination of the country also strengthens in the world.

The collapse of the Soviet Union made the United States the only superpower country with the largest economic power in the world. However, China after liberalizing its trade regime in 1978, has now experienced very rapid progress as a country that can balance the economic strength of the United States by reaching the position of two countries with world economic powers. Western media even mention the 21st century is the period of the rise of China and call it a red awakening. According to Samuelson P. Huntington, the existence of the United States as a superpower can be threatened by China [1].

In the midst of the incessant international economic actors doing various collaborations that are packaged in multilateral cooperation and free trade trends to advance the global economy, the United States is the opposite. Donald Trump instead launched protectionism which is contrary to the rhythm of globalization even though the US is still listed as number one as the world's largest economy. Donald Trump's protectionism policy as the new US president through the decision to determine import duties on products from China as a realization of his campaign “The US first, make America great again”. The implementation of import tariffs is seen as the right policy for the future of the US industry

because China continues to have a surplus, reaps the biggest profits, and is the main cause of the US deficit [2].

This policy triggered a trade war between two giant countries that played a major role in the global economy. Since 2018, the US and China have responded to each other in the form of an import tariff war for various products from the two countries.

Trade wars actually involve many related countries as part of *the supply chain*, namely *raw material* suppliers and target markets for US and Chinese products. This situation also affected Indonesia. Many people considered it too early to conclude the trade war had a negative impact on Indonesia. However, the impact of the tariff war included a market abandoned by the US and China. When the US and China are Indonesia's main trade partners, Indonesia must be prepared to face the threat of a trade war between the two. The threat of this trade war for the Indonesian people is a challenge and opportunity in efforts to maintain and strengthen Indonesia's national resilience.

## METHOD

This research is exploratory qualitative research. Data collection through Focus Group "Discussion US foreign Policy" and "Chinese foreign policy", depth interviews with a competent source (the Republic of Indonesia Trade Department staffs), and supported by secondary data in the form of related information documents with this research (BPS, printed books, electronic books, scientific articles, scientific journal, and interest sites). The explanation of the phenomenon using the theory of Rational Choice on Protectionism and the National Resilience Concept to determine the impact and its challenge and opportunity on Indonesian National Resilience.

## RESULT & DISCUSSION

Rational Decision – Making Model or commonly known as Rational Choice Theory is being the most often used in the process of foreign policy decision -making. This theory explains choices and looks at the behaviour of decision-makers. It is then used as the most choice in determining the state's behaviour and actions to calculate the disadvantages and benefits such as actions, thus choosing one of the most advantageous options.

According to Allison, there are three models in the decision-making process, namely: Rational Actor Model (RAM), The Organization Process

Models (POM) dan The Governmental (Bureaucratic) Politics Model (GPM). The rational actor model is the most widely used model of foreign policy-making processes, in which the international environment determines the country's action as an actor and makes a rational choice global power configuration post of cold war situated the United State of America as "the lonely superpower vis a vis multiple powers" [3]. The USA facing The New Emerging Multiple Powers (Europe Union, Russian, China, and Japan).

The US became the only single superpower in the world that leads to global economics. But since China reformed their economic policy by liberating its trade regime in 1978, China's economics was growing fast and now in second place of the state with the biggest economic power in the world after the US.

Raising China's power has threaten the US position. China always surplus and gain the biggest part of the international trading advantage, on the contrary, the US always deficit and pointed out that China is the main caused US deficit. In order to protect the national security and national interest as the priority, Donald Trump decide to implements a tariff policy on China's products import.

Donald Trump Tariff's policy as the matter of fact is the realization of Trump's campaign in the presidential election in the year of 2017. "US first. Make America Great Again". Within two years, the US tried to decrease trade deficit on China that increased US\$ 375.2 billion in 2017 from US\$ 347 billion in 2016. In order to fixed the US foreign trade deficit, this protection policy was claimed as the rational choice. But this leads to the Trade War between the US and China.

Trade War is all kinds of trading obstacles that are applied to other countries such as increasing tariffs, import limitation, etc that become conflicts among countries because their national interest are different [4].

The USA on March, 8<sup>th</sup> 2018 applied tariff policy 30 % up to 50% on solar panel product and washing Machine, 25% for steel, and 10% for aluminium import products from China.[5] On April 2<sup>nd</sup>, 2018, China counters by increasing up to 25% tariff for USA's product. The tariff war was getting hot. On April 3<sup>th</sup> 2018 USA counter back to China by applying a 25% import tariff for 1.300 varieties China import products. China then forces the USA to pay import tariffs in an amount of 48.83 billion USD. Counter actions were then followed by many other countries as protests and protections of markets in their respective countries [6].

According to Allison, national security and national interests are fundamental to the formulation

of Foreign policy [7]. The Protection of the US is protection against import tariffs and taxes. This trade barrier is the imposition of a tax on goods imported by the US. The protection aimed at saving the domestic market and economy, by increasing export and seeking to increase tariffs as a part of an effort to prevent imports. Based on Protectionism Theory, according to Frederich List, protectionism is a strategy on protects economic sustainability by protecting national/domestic products and another component that needed relating to it. The government have the right to make their policy in order to maintain economic development in their country.

There are three base main ideas of the protectionism system according to Frederich List, there are Infant Industry Idea; Forced Capital Investment idea and National Interest idea [8]. The trade war between two superpower state impacts to many countries related to the supply chain, raw material, and market target. The trade war between two superpower state impacts to many countries including Indonesia, related to the supply chain, raw material suppliers, and market targets for US and China products. Indonesia has to anticipate the negative impact of a trade war.

Up to now, Indonesia chooses to exports domestic products to the US and China in order to establish a strong and stable market. The foreign trade between Indonesia and China always deficit. Meanwhile, Indonesia worrying about the low price of Import products from China will hit the domestic products. China the is biggest supplier for non-gas-oil import products in the amount of US\$ 8,91 billion while export Indonesia to China 5.97 billion in the period January – March 2020. The second place is the United States of America US\$ 4.84 billion. While non gas-oil export Indonesia the biggest is to china (US\$ 1.98 billion) followed by the US (US\$ 1.57 billion) [9].

Even though Indonesia is not the main partner of the US neither China, Indonesia sustainably eager to be able to cut through their markets [10]. The threat of Trade War impact could become an opportunity and challenge for strengthening Indonesian National Resilience. Trade war on the other hands could be opportunities to fill up China and US markets that had been left by both US and China caused by the trade war.

National Resilience is a national dynamic conditions of a nation including all integrated national living aspects, consist of the power and strength to survive and to face all the challenges, threats, resistances, and obstacles that come from a domestic or foreign country, direct or indirect that aimed to endanger the integrity, identity, the

existence, and the sustainability of the state and nation in the struggle to achieve national aims [11].

The model developed by Lemhannas concludes that there are eight elements of national life aspects (ASTA GATRA) consisting of three natural life gatra (TRI GATRA) and five social life gatra (PANCA GATRA). Tri Gatra consists of Gatra's geographical position and position; Gatra state and natural wealth; Gatra state and ability of the population. Whereas Panca Gatra consists of Gatra Ideology; Gatra Politics; Gatra Ekonomi; Gatra Socio-Culture and Gatra Defense Security. Where these eight aspects constitute a unified gestalt, there are close interrelationships (correlations) and dependencies (interdependencies), arranged as a whole (comprehensive integral).

Tannas is needed not only as a political conception but as a necessity in supporting the success of the main tasks of government, such as law and order, welfare and prosperity, defense and security, juridical justice and social justice, freedom of the people. In the regulation and administration of the State (national life), security and welfare problems are like a coin. One side is a picture of welfare, the other side is a picture of security. The economic field cannot be separated from other related factors. In addition to being related to the geographical area of a country, it is also related to the source of natural wealth, human resources, the ideals of the community which are commonly called ideology, the accumulation of power, power, and policies that will be applied in production and distribution activities, social-cultural values, and defense and security which guarantee the smooth running of a nation's economic activities.

National Resilience is an integration of the resilience of each aspect of national life. Because the situation is always developing and the dangers and challenges are always changing, national resilience must also be developed and fostered to be adequate with the development of the situation. Therefore, National Resilience is dynamic.

The Trade War is a phenomenon that occurs that must be addressed by planning and establishing strategies so that Indonesia's National interests can be fought for the realization of Indonesia's continued existence in the world. Basing on the concept of asta gatra, the opportunities, and challenges faced by each gatra are as follows:

- a) Location, Geographic Position: strengthening the sovereignty of the Republic of Indonesia.
- b) Natural Resources (Natural Resources): utilization to strengthen the economy.
- c) Population Capability (Human Resources): preparation of the required professionalism.

- d) Ideology: strengthening the ideology of Pancasila in view of the US Liberal and Communist China.
- e) Politics: strengthening the ability of Foreign Diplomacy in Foreign Trade.
- f) Economy: manufacturing products to fill the markets left behind by the US and China.
- g) Social Culture: adaptation of the new social order that prioritizes local wisdom and national culture.
- h) Defense and Security: the development of the defense industry and Regional Cooperation counterbalancing the two giant powers of the world.

### CONCLUSION

The economic crisis is one of the reasons why the US government is taking precautions in order to boost the domestic economic sector. The rational choice made by the US led to the US vs China trade war which impacted the global economy. Indonesia, which places the US and China as the main trading partners looking for opportunities that can be exploited from the impact of trade war and this is a challenge in maintaining and strengthening national resilience.

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