

Revenue or Reciprocity: US Trade towards China under George W. Bush and Donald Trump

Xiaohan Huang

School of English and International Studies, Beijing Foreign Studies University, Beijing,
100080, China

Abstract

The George W. Bush and Trump administration are typical of US approaches to trade relations with China. The Bush administration had a revenue-oriented goal that focused on absolute gains, and the Trump government had a reciprocity-oriented one that focused on relative gains. This paper explores the contextual factors for the two US presidents' trade policy decisions towards China by analyzing the decision contexts of each administration using United States Trade Representative archives, statements of key policy-makers, and reports from Congressional Research Service. This paper also discusses the fundamental US interests in revenue and reciprocity regarding economic and political gains in trade with China. Finally, this paper argues that unfulfilled US expectations from the liberal bet on China, combined with domestic complaints, contributed to the shift in trade policy during the Trump administration, precipitating the reemergence of relative gains and protectionism.

Keywords

US-China Relations, US Trade Policy, Engagement, Liberalism, Protectionism.

1. Introduction

Revenue and reciprocity are classic U.S. trade policy choices that dated back to the Washington administration when the newly independent America was still deliberating on its response to Britain's discriminatory trade practices. Eventually, the Washington administration upheld a policy of "conflict avoidance" championed by the federalist party and discarded retaliatory tariff plans, thus "helped put the nation on a sound economic basis" [1]. Hamilton was vigorously opposed to the slightest possibility of a trade war with Britain, which was something that the fragile American economy could not afford. This is the then budding America's calculus about securing revenues for a new nation.

Fast-forward to the interwar period where the Great Depression set the world economy into a beggar-thy-neighbor whirlwind. America was quick to enact three-digit tariffs on foreign goods. The effect of this prisoner's dilemma is not restricted to a precipitous drop in global trade; it also fueled the political tensions between states that culminated in the eruption of WWII [2]. An unprecedented yet "uncoordinated" protectionism rendered a "wholesale collapse" [3].

In the wake of the overwhelming tariff and non-tariff barriers during the interwar period, the U.S. was slowly adjusting policy preferences ushered by the economic benefits of the Reciprocal Tariff Act [4]. Lowered tariffs and increased exports helped won a vote of confidence for liberalization and free and open markets [4]. Trade protectionism hereafter can be alternatively understood as a fair trade "layering" not "replacing" [5] of trade institutions. While the vibrancy of the liberal idea in the U.S. is very true, the vacillation between revenue and reciprocity still has a pronounced presence in U.S. trade policy where contradictory philosophies of liberalism and protectionism coexist. The chronology of U.S. trade policy toward China is a case in point to describe and evaluate this pull-and-tug. The Bush administration's trade liberalization with

China is part of the long-term post-war American effort in creating an open market and a multilateral trading system. This is not simply generating economic revenue because liberalization links economic liberty with political liberty and “increased democratization around the world” [6]. Under the Bush administration, the U.S. backed China’s entry into WTO and granted China permanent normal trading relations with the U.S.

Entrance into WTO and the establishment of PNTR have enabled exponential growth in U.S.-China trade volume. But discontent about the way the trade relation turned out for the U.S., some would argue and did argue, as epitomized in the Trump administration, has chipped away American interests via unfair trade practices. Retaliatory measures ensued and U.S. trade policy witnessed a protectionist turn. Economic motivation, especially financial gains, dominated the rhetoric of Bush’s liberalization and Trump’s protectionism with China, but the underlying rationales that birthed Bush’s revenue policy and Trump’s reciprocity policy are multifold. Decision contexts matter as well.

In the context of this paper, the idea of revenue in U.S. trade policy includes both economic and political gains. However, reciprocity is more narrowly defined as protectionism and countermeasures as observed by Hay and Sulzenko [7]: “modern-day reciprocity is synonymous with fair trade”, which “has manifested itself through numerous bills before the U.S. Congress, seeking to impose tough new rules on America’s protectionist trading partners”.

2. Literature Review

This section reviews research on U.S. trade policy under George W. Bush, some of which are editorials, some are policy assessments, and some are meticulously designed research projects that went deep into the psyches of the decision-making leadership. Although there are comparatively fewer scholarly analyses on Bush’s China policy in terms of trade, foreign policy, and U.S. trade policy combined offer insights into the topic.

2.1. From “ABC” to strategic partner

When George W. Bush first assumed office, he was self-proclaimed “anything but Clinton” and called China a “strategic competitor” and containment would seem natural. Yet the administration later took a pragmatist turn, tilting towards the “necessity of cooperation”, or engagement [8]. Rudolf defines engagement as “the hope of positive developments in the long run combined with hedging against risks in case China challenges the U.S.” [8]. This article approaches trade policy towards China under Bush on the premises of American-led international order and “competitive liberalization”; the latter was coined by USTR Robert Zoellick in 2003 and was commonly used to refer to the Bush administration’s efforts in championing multilateralism and bilateralism [9]. USTR Zoellick’s vision of a “coalition of the willing” under that “doctrine” partly reflects the decision context of the active commercial engagement with China.

Scholarly explanations for Bush’s affinity for trade liberalization with China all have one prominent theme, though the focuses are not entirely identical, that is integration. Deducing from declaratory and operational policy, Rudolf [8] describes engagement as “integrating China in the Western economic system”, but the calculus does not stop at commercial benefits. Other than acquiring asymmetries of market power [10], commitments are also predicted where China is expected to open and liberalize its economy, and offer stable market, trade, and investment access for foreign manufacturers and investors [8][11][12][13], or to be “a responsible stakeholder” as USTR Zoellick said in his speech to the National Committee on US-China Relations in New York [14].

Economic benefits aside, Bush’s revenue policy is also believed to be of political significance [15]. China’s predicted economic reforms and increased dependence on the world economy

would modernize the country and most important of all, democratize China itself [10] [16] [17], which is a line of logic that can be traced back to the Clinton administration. However, the Bush Administration did not have its motivation exclusively on liberalizing trade and democratizing the international community. By integrating China into the “system” where markets are advantageously open for U.S. businesspeople, the U.S. can advance the rule of law in trade, especially U.S.-style laws [15]. This commercial engagement was joined by political cooperation after the 9/11 attack where the Bush Administration needed support for its war on terror and China sought to leverage its support for America “to gain concessions” [11]. Under Bush, trade engagement was riding the tide of warming-up high politics [18].

Viewed vertically, the Bush Administration’s revenue policy had its prime concerns over the liberal bet on China, China’s economy, and the integrated international order. Ideally, the U.S. would reap economic and political revenues out of pragmatism [12]. Yet same as the heated debate of “Inevitable Rivalry” between John Mearsheimer and other scholars [19], the way pragmatic commercial engagement has turned out for the U.S. is interpreted differently by people with different world views, as reflected in the amount of support Donald Trump received when he said in 2011, “China is ripping us” [20].

2.2. America First and Power Politics

The United States trade relationship with China was denounced by Donald Trump long before he became a candidate for president and the promises he made during his campaign and his inaugural address were mostly delivered, but the efficacy of those actions remains debatable, the most vociferous of which is the trade war brought against China. Admittedly, it is not hard to pin down the keyword for Trump’s protectionist policy, which is deficits.

Media reports and the president himself often referred to the intolerable trade deficits between the U.S. and China to account for the outbreak of trade war, and scholarly analyses seem ready to agree with this view. “China’s chronically large trade deficits” [21] is one of the major concerns that sent the Trump administration into initiating a trade war [22][23][24]. Another key incentive is the threat of China [21][25]. The growing muscle of China’s technology and military strength has sent the Trump administration into deep concerns about China’s acquisition of American technology, especially those that can be readily converted to military use [21][24][25][26]. Talley also pointed out a lack of trade pro quo from China as Trump’s affinity with protectionism, which echoed Trump’s advocacy for “fair trade” [26]. In the perception of the Trump administration, Beijing is not opening its markets as much as it should and is exploiting the international trade institution to gain a favorable ground [24][27][28]. Trump’s governing philosophy is also considered a catalyst for reciprocity policy. Janusch and Mucha identify “the willingness to use all means possible” as the leadership characteristic that enables power politics’ salience in Trump’s trade agenda [24].

Scholarly analyses have approached the incentives for Trump’s strong reciprocity policy towards trade with China from trigger events, economic philosophy, and leadership characteristics. While those variables cover most of Trump’s protectionist turn, they are insufficient to explain why the administration was so decidedly against such perceived unreciprocal. The omniscience of political economy and electoral politics are strong incentives to consider.

3. Bush’s Liberal Bet

This section examines the rationales underlying the Bush administration's trade policy toward China, which include the grand trade strategy, expedient trade-offs, and leadership.

The Trade Policy Agenda for 2001 of the President of the United States begins with an outset of promoting open markets for trade. Drawing on lessons and experience from the trade

expansion throughout the Cold War, the Bush administration defines trade as a “classic win-win proposition”. Expanding trade is equated to expanded economic growth in the U.S., which is reflected both in business competitiveness and the welfare of Americans. “Economic freedom creates habits of liberty and habits of liberty create expectations of democracy” [6][29][30]. This best describes the butterfly effect the administration expects to accomplish in the report, an effect that entails two key actors: one is the decidedly liberal United States, and the other is the international institution consisting of bilateral, plurilateral, and multilateral efforts. This butterfly effect can, according to Baum [16], further stabilize the East Asia region. Healthy bilateral trade relations with China and integration into the liberal institution seem the natural corollary.

The calculus for China's trade policy is inherited from the liberalization strategy of the administration. The policy goals enumerated are American access to Chinese markets, support for Chinese domestic reform, and integration of China into the Pacific and global economy. Yet these are only the prospects of the benefits of a revenue policy of liberalization and integration, concrete phasing-outs of tariff and non-tariff barriers are what further assure the Bush administration's confidence in securing the predicted revenue. Promises were made by China to reduce industrial tariffs, eliminate export subsidies, reduce government intervention, liberalize multiple services and industries, and many more. Alternatively, the act of shutting China out of international trade would mean a U.S. absence from the irreversible trend of globalization, which is as unpragmatic as it can be. Therefore, a quick cost-benefit analysis would preclude such an action.

Analyzing the chronology of the Bush administration's China policy, Baum identifies a pull and tug between the so-called blue team, which advocated for containment, and the red team, which advocated for engagement. President Bush, however, appeared to be finding some breathing space in the middle, along with his Secretary of State Colin Powell and United States Trade Representative Robert Zoellick, who favored a neo-liberal internationalist view. During Bush's first term, Robert Zoellick served as the United States Trade Representative. In negotiations with China regarding the accession to WTO and other bilateral agreements, Zoellick was “correct and courageous” [31] in reversing the Clinton administration's refusal to place the most politically sensitive U.S. trade policies on the table. Zoellick was also a pronounced supporter of China as a “responsible stakeholder” [32]. Therefore, it is safe to conclude that affinity with the engagement school, has contributed to the pursuit of a continued, albeit wary China policy in terms of trade.

4. Trump's Fair Trade

This section examines the rationales for the Trump administration's trade policy toward China, namely the trade war, which includes political philosophy, problem-solving paradigm, and electoral politics.

The most prominent feature that differentiates Trump from his predecessors is his emphasis on unfair trade practices and their detrimental harms. Contrary to neo-liberal thought, the Trump administration considered trade to be a zero-sum game where the welfare lost by one country is immediately gained by the other [33][34]. In this case, China is “ripping off” America to facilitate its growth. Under the Trump administration, absolute gain from bilateral trade is a non-starter; the declining relative gains are deafening alarms of unfair trade practices. This is reminiscent of British mercantilism in the colonial era: a trade surplus leads to economic growth and job creation. Additionally, securing national sovereignty and national security are considered to be the other side of “restoring” fair trade [35][36], which elevated an economic proposition to politics. Consequently, the threat of China fits into those perceptions. China is “ripping off us”, and so is the international institution by adding extra obligations to the U.S. and

allowing other countries to exploit the established principles and hamstring American trade law.

The administration's perceptions of problems in trade with China are only part of the reasons contributing to the heated hostility. Trump's solutions to trade disputes took on a fairly different air from his predecessors, one that has coercion and retaliation. To achieve U.S. trade objectives, the Trump administration was devoted to "use all possible sources of leverage to encourage other countries to open their markets to U.S. exports of goods and services and provide adequate and effective protection and enforcement of U.S. intellectual property rights" [35]. This "get-it-over-with" style of dealing can be partly attributed to his personal experience and personality. In *The Art of the Deal*, Trump's fundamental principles of maximizing leverage are best described in his own words: "The worst thing you possibly do in a deal seems desperate to make it; My leverage came from confirming an impression that they were already predisposed to believe [37]." Convinced that the U.S. is losing from unfair trade practices and institutions [24], the Trump administration considered the U.S. to be less dependent on the asymmetric trade relation with China because one who benefits less from cooperation is less dependent on the bilateral relationship than their counterpart [38]. Following this logic, the U.S. is poised to receive concessions because China has more stake in not letting the relationship teeter.

The electoral politics of the United States plays an important role not only in presidential elections but also in the policy-making of the administration and Congress. Presidential candidates cater to the needs of their potential voters and after they enter the White House, the "obligation" is still alive and well. Thus, the turn toward protectionism is not entirely an economic phenomenon, but also a sociopolitical one. To understand the Trump administration's anxiety and intolerance for trade, we shall look at the cultural changes happening in American society. In the 2016 election, voters in both major parties called for a fundamental change in direction of U.S. trade policy [39][40]. Following the wave of globalization, the prediction of Wang that "some U.S. industries may be hurt by trade liberalization with China and others stand to gain" rings true [12]. Intensified international trade, especially disputes with China, coupled with the after effect of the financial crisis during the Obama presidency [27], has contributed to an identity crisis among Americans and their perceptions of America's status in the world. This out-of-place uneasiness quickly found the tailored channel to outsource the shock they experienced.

5. Conclusion

This paper discusses the China trade policy under George W. Bush and Donald Trump, the two of which represents different eras of American trade policy in general and towards China. It has also shown that in different stages of globalization, the perception of globalization and China's place in the world varied. At the beginning of the Bush administration, the decision-makers spent much of their prospecting the wonderful results and possible spillovers of trade liberalization with China. Yet when President Trump assumed office, antagonism was amplified via retrospection of the past "wrongdoings". The rhetoric seemed to be creating a line that portrays China as an enemy of America's own making, both politically and economically. Hard-liners celebrated this long overdue awakening while moderates worry about the future of this tumultuous trade relation and global trade in general. Although we cannot go back to the time when those policies were made, we can get a glimpse at the situations those decision-makers were in by putting their decisions in perspective. Whether the policy of reciprocity has alleviated, or at least in part addressed the problems of "unfairness" that the Trump administration was keen on publicizing lies in the results of a before-after comparison by the economists. But two things are clear to see without economic expertise. Liberalization brings

revenue and the lesson from the disastrous 1930s suggests that protectionism only begets protectionism.

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