

Interpreting Sino-American Trade Dispute: Some Helpful Ideas from Social Science

Steve Chan

Ngee Ann Kongsi Professor of International Relations,

S. Rajaratnam School of International Studies

and

College Professor of Distinction,

University of Colorado, Boulder

Tariff Imposition as Costly Signal

- **Backing up Words with Deeds**
- **Act of Self Denial to Communicate Resolve and Credibility**
- **Public Wager on Relative Pain Threshold**
- **Reputation Effects: Audience Costs and Shadow of Future (e.g., the EU is Watching Both China and the U.S. in forthcoming Trade Talks)**
- **Hence, Precedent Setting and First-Mover Advantage (or Disadvantage)**
- **Declared vs. Undeclared Agenda: Both Positive and Negative Issue Linkages**
- **Important Difference: Import vs. Export Restriction**

History as Biased Sample

- **Self-Selection in Asymmetric Dyads: “Hard” Cases When Disputes Escalate to Tariffs Being Imposed**
- **Balance of Power vs. Balance of Stake, Interest and Commitment**
- **“Normal” Variables Predicting Successful Sanctions Are Likely to Have Their Regression Signs Reversed in “Hard” Cases**
- **Because the Weaker Side that Decides to Enter into these “Hard” Cases Would Have Already Discounted Such Publicly Known Variables**
- **The Weaker Side’s Leaders Must Have Concluded that these Commonly Accepted Factors Are Offset by Information Only Known to Them Privately**

Domestic Ratification of International Deals

- **The Two Sides' "Win Sets" Must Overlap for a Deal to be Reached**
- **Each Side's "Win Set" Is Determined by Its Domestic Distribution of Interests and Influence**
- **A Strong Leader Has a Larger Win Set**
- **A Domestically Secure Leader Can Be More Easily "Pushed Around" to Give Concessions (S/he Is Less Constrained Domestically)**
- **Even After Being Concluded, A Deal May be Rescinded Due to "Involuntary Defection" (e.g., the Iran Nuclear Deal)**

Issue Linkages and Path Dependency

- **The Larger the Number of Issues Involving the Two Disputants, the Greater the Possibility for Side Payments and Log-Rolling, and Hence a Greater Prospect of a Deal being Reached**
- **“Wins” and “Losses” Can Involve Both Tangibles and Intangibles**
- **They Cannot Be Easily Tallied, Certainly Not From Public Discourse Intended for Domestic Consumption and Thus Subject to Hype**
- **Serial Interaction with Many Rounds: What Happens Today Affects What Will Happen Tomorrow**
- **Delayed Gratification and Long-Term Strategic Planning Are Easier to Contemplate when Electoral Cycles and Term Limits Are Less Likely to Intervene**

Tip O'Neill: All Politics Are Local

- **Trade Creates Domestic Winners and Losers, Relatively and Absolutely**
- **Tariffs Distort A Country's Natural Advantages due to Its Relative Factor Endowments**
- **Hence Trade Deals Are Politicized to Help One's Domestic Political Base and Hurt One's Domestic Opponents**
- **Redistribution of Domestic Costs and Benefits as Tariffs Have Differential Impact on Regions, Classes, and Industrial Sectors**
- **Marginal, Not Average, Impact of Tariffs on "Swing Voters" in "Pivotal States" in the U.S. Electoral Landscape**
- **The Political Paradox of Wall Street vs. Main Street, Financial Capital vs. Blue-Collar Proletariat in Sino-American Trade Dispute**
- **The Importance of Differentiating Concentrated vs. Diffused Interests or the Political Mobilization Potential of Distributional Coalitions**

The Pertinence of Timing

- **Ceteris Paribus, Both Sides Want to Have an Earlier Settlement than a Later One with the Same Terms to Avoid Opportunity Costs**
- **But Not Everything Is Equal....**
- **The Importance of Timing for Beijing: To Conclude a Deal Now with a Possible One-Term U.S. President or to Wait and Negotiate with a Possible (Democratic) Successor Who Can be even Tougher**
- **The Importance of Timing for Washington: How Much Added Value Does A Trade Deal with China “Worth” in the Wake of the Failed Hanoi Summit and As the 2020 Election Gets into Full Swing?**

China's Strategic Environment

- **China's Embeddedness in Global Production, Investment and Trade Network: Meaning Hard to be Singled Out**
- **China's Vulnerability to Domestic U.S. Political Scapegoating**
- **Democratic and Republican Convergence on China, and the Danger of Competitive Partisan Bidding or "Tag Team" Politics**
- **Efficient Market Hypothesis: Security Markets Seem to be Optimistic in a Short-Term Resolution, with BA, CAT and GE appearing to be Especially Sensitive**
- **One Relatively Safe Prediction: Multiple Stages, Gradual Phase-In Approach Providing Hedging and Incremental Adjustment since this Approach Suits Both Sides**