ANALYSIS OF THE IMPACT OF THE TRADE WAR BETWEEN THE UNITED STATES AND CHINA ON EXPORTS AND IMPORTS OF ELECTRONIC GOODS IN INDONESIA

DESCRIPTION

Submitted as one of the requirements to obtain a bachelor's degree at the Department of International Relations

By:

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DEPARTMENT OF INTERNATIONAL RELATIONS

FACULTY OF SOCIAL SCIENCE AND POLITICAL SCIENCE

HASANUDDIN UNIVERSITY

2024

TITLE SHEET

ANALYSIS OF THE IMPACT OF THE TRADE WAR BETWEEN THE UNITED STATES AND CHINA ON EXPORTS AND IMPORTS OF ELECTRONIC GOODS IN INDONESIA

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STATEMENT LETTER

STATEMENT LETTER

I am the undersigned:

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That it is true that it is my scientific work and free from plagiarism (duplication). Thus this statement letter is made, if in the future there is evidence of unauthenticity of this scientific work, I am willing to take responsibility in accordance with the applicable laws and regulations.

Makassar, 23th August 2024

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Muh. Daffa Firdaus

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PREFACE

All praise and thanks to Allah Subhanahu Wa Ta'Ala, the Most Merciful. For all of the graces, blessings, and bounties that have been bestowed upon the writer in order for him to complete this thesis successfully. Remember to send sholawat and greetings to the wonderful Prophet Muhammad Shallalu, Alaihi wa sallam, family, friends, and relevants.

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inally, the author hopes that this thesis will be valuable to all of us and at it will serve as input material for the world of educational evelopers.

Makassar, 23th August 2024

(Muh. Daffa Firdaus)

ABSTRACT

Muh. Daffa Firdaus, (E061191093), "Analysis of the Impact of the United States and China Trade War on the Export and Import of Electronic Goods in Indonesia", under the guidance of **Drs. H.M. Imran Hanafi, MA, M.Ec** as supervisor I**,** and **Atika Puspita Marzaman S.Ip, MA** as advisor II, at the Department of International Relations, Faculty of Social and Political Sciences, Hasanuddin University.

This research aims to find out the impact of the trade war that occurred between the United States and China on the Export and Import of Electronic Goods in Indonesia. The research method used in the preparation of this thesis is descriptive method, with data collection techniques in the form of literature review sourced from books, journals, articles, official internet sites, and reports related to this research.

As a result of this study, researchers found that the main impact of the US-China trade war in terms of exports of electronic goods in Indonesia is the change in market demand. High tariffs on products from China changed global market demand, affecting Indonesian exports. Companies must manage increased production costs while meeting higher demand.

Keywords: *Trade war; Export; Import; Electronics*

ABSTRAK

Muh. Daffa Firdaus, (E061191093), "Analisis Dampak Perang Dagang Amerika Serikat dan Tiongkok terhadap Ekspor dan Impor Barang Elektronik di Indonesia", di bawah bimbingan **Drs. H.M. Imran Hanafi, MA, M.Ec** selaku dosen pembimbing I, dan **Atika Puspita Marzaman S.Ip, MA** selaku Pembimbing II, di Departemen Hubungan Internasional, Fakultas Ilmu Sosial dan Ilmu Politik, Universitas Hasanuddin.

Penelitian ini bertujuan untuk mengetahui dampak perang dagang yang terjadi antara Amerika Serikat dan Tiongkok terhadap Ekspor dan Impor Barang Elektronik di Indonesia. Metode penelitian yang digunakan dalam penyusunan skripsi ini adalah metode deskriptif, dengan teknik pengumpulan data berupa tinjauan pustaka yang bersumber dari buku, jurnal, artikel, situs internet resmi, dan laporan terkait penelitian ini.

Hasil dari penelitian ini, peneliti menemukan bahwa dampak utama perang dagang AS-China dalam hal ekspor barang elektronik di Indonesia adalah perubahan permintaan pasar. Tarif yang tinggi pada produk dari China mengubah permintaan pasar global, yang mempengaruhi ekspor Indonesia. Perusahaan harus mengelola peningkatan biaya produksi sambil memenuhi permintaan yang lebih tinggi.

Kata Kunci : Perang dagang, Ekspor, Impor, Elektronik

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CHAPTER I

INTRODUCTION

A. BACKGROUND

Since 2018, trade tensions between the United States (US) and China have escalated, amid concerns about currency manipulation, state subsidies, trade imbalances, relaunching export strategies, intellectual property issues, national security, and more. Increased US tariffs on Chinese imports were immediately met with retaliatory tariffs from China in at least three waves of 'big special' tariffs. As a result, from early 2018 to 2021, the average US tariff on goods originating from China rose from 3% to nearly 20%, while the average Chinese tariff on US goods jumped from 8% to 21%. In 2021, US tariffs on Chinese goods covered about USD 350 billion, while Chinese tariffs on US goods covered about USD 100 billion. Although attempts to lower tariffs have been made, it is not yet clear to what extent tariffs may increase in further rounds (Aslam 2019).

The US-China trade war is showing a negative impact on both countries' trade flows. The larger negative impact affects China more than the United States, although US tariffs have been passed on to American companies and consumers. However, it remains an empirical question to what extent these impacts are then transmitted to these countries' third top trading

er in the form of lower export demand. With China as the trade hub of

the transmission impact propagated through the production network to

ıboring countries may be large enough to cause a trade slowdown and

of trade competitiveness for them. The literature on the transmission of trade shocks is somewhat varied. While Korea, other Southeast Asian countries, and Europe have experienced negative impacts from trade shocks, some cases in Asia report minor impacts from Aslam (2019) concluded that trade tensions could have a negative impact on indirect exports from Southeast Asian (ASEAN) countries to the US. However, he also identified the possibility that ASEAN countries could export substitute products to replace China's exports to the US. Similar findings were also found by Caceres (2019) and Li (2020).

China is the most populous country in the world. China's population of 1.37 billion is about 5 times more than Indonesia's population of about 258 million. Apart from being the most populous country in the world, China is also one of the largest countries in the world with an area of 9,596,960km2. This area makes China the 4th largest country in the world. In the economic field, China is the country with the second largest economy in the world. China's Gross Domestic Product or GDP amounted to USD. 12 trillion in 2016. China is also a major producer of several important commodities such as Gold, Silver, Copper, Coal, Tin, Nickel, Aluminum, Iron and so on (World Factbook 2022).

While the United States as a Federal Constitutional Republic located on the North American Continent has an area of 9,833,517 km2 with a population of 323,995,528 people. The large area and large population make Jnited States the third largest country in the world and the third most lous country in the world. The United States is the first largest importer ods and the second largest exporter in the world, although its exports per a are still rather low.

Partially, changes in the Yuan exchange rate have no effect on the USD exchange rate. It is suspected that due to asymmetric information between the Central Bank of China and the Central Bank of Indonesia can make accurate decisions. However, partially also changes in the USD exchange rate have a significant effect on the Rupiah exchange rate. From this, Indonesia was affected by the trade war between China and America, because in accordance with the implementation of the free floating exchange rate system in Indonesia. The government does not need to intervene because it has been submitted to the prevailing market mechanism Partially also changes in the Yuan exchange rate have a significant effect on the Rupiah exchange rate. It is suspected because the government maintains the domestic exchange rate so that its value is stable against foreign exchange rates, in this context the foreign exchange rate is US $. (Naibaho).

On Tuesday, April 3, 2018, United States (US) President Donald Trump released a proposal for import tariffs of up to 25 percent on around 1,300 products from China. It did not take long, just a matter of hours, China was provoked and immediately issued a reply by announcing import duties of 25 percent for around 106 products from the US. Not to be outdone, China's import tariff proposal is imposed on major imported products from the US such as soybeans, airplanes, cars, whiskey, and chemicals. If calculated, the value reaches 50 billion US dollars (Ronny, 2018).

The countermeasure is evidence of the Chinese Ministry of merce's statement that it will take similar steps to retaliate against US rt tariffs. Previously, the *US Trade Representative* (USTR) released a list pposed import tariffs worth around 50 billion US dollars on products from China. In the details of the list circulating, the majority of Chinese products are in the form of technology goods, transportation and medical products such as antibiotics, industrial robots and aircraft assembly products. Reported from Deutsche Welle media that the imposition of import tariffs is always referred to as a punishment for China, which is accused of carrying out the practice of violating the intellectual property rights of US companies in China.

Not only that, the levies also aim to cut the US trade deficit with China, which last year alone reached USD 375 billion. The USTR's proposed import tax list does not include products that focus on consumer products such as cell phones and laptops assembled in China. However, the tariffs will affect electric and gasoline motor vehicles and flat-screen television components. The USTR determines which Chinese products are subject to import tariffs through an algorithm designed to select which products will have the greatest impact on Chinese exports. Products that are expected to disrupt the US economy are excluded from the list of 1,300 products.

Meanwhile, the products that made the list were ranked according to the magnitude of the impact on US consumers (Ronny, 2018). In the description of the IGJ Economic Justice discussion in 2018, Indonesia's biggest concern from the US and China trade war is that the Indonesian market will be flooded by Chinese or American products. This is because natically Chinese products that cannot enter the American market will t other countries, and Indonesia is one of the countries that is very ntial to be targeted. However, on the other hand, there is a positive impact. Logically, once the Chinese market in the US is closed, this can be an opportunity for other countries to take advantage of the open market in the US. Like Indonesia. (Hertanti, 2018).

Basically, the value of Indonesia's trade with the US is not very significant. However, there is some potential for Indonesia to take advantage of US market opportunities due to this trade war. Indonesia does have several leading export commodities to the US Some commodities that have the opportunity to take advantage of the US market in this trade war situation include mineral commodities, furniture, clothing and footwear, iron and steel, including fishery products and shrimp. How much of this opportunity can be taken, of course, depends. This is because there is a potential that the US will also apply high tariffs to several Indonesian export commodities to the US, such as: products that are currently still subject to 0% tariffs such as rubber, shrimp, and furniture; and several products that the US already has substitutes for such as palm oil (biofuell).

If we look at this phenomenon historically, we can conclude that history is repeating itself. The liberalization that has been pushed by developed countries is actually very strong in terms of their unilateral interests. So, when trade liberalization is deemed beneficial to developed countries, it will be pushed as much as possible. But when it becomes less and less beneficial, they will turn around and become opponents of liberalization.

[illegible] the end of the cold war, the process of liberalization has been [illegible]gthened by globalization whose impact is felt today. If realists tend to use [illegible] *power* which is the only way to achieve the welfare of the country, [illegible]ly by going to war with liberalization, the orientation of the world order is more suitable to use *soft power* where all countries will no longer go to war, but in reality countries now prefer to use the concept of cooperation in realizing economic liberalization.

The electronics industry is one of the sectors most affected by this trade war. Electronic products cover a wide range of goods from semiconductor components, household appliances, to telecommunication devices. Indonesia, as one of the players in the global electronics industry, has an important role as both an exporter and importer. Electronic products from Indonesia not only fulfill domestic needs but are also exported to various countries. According to BBC News Indonesia, by 2023, Indonesia's electronic product trade balance will record a deficit, which means that the value of electronic product imports is greater than the value of exports. This shows that Indonesia is still highly dependent on imported electronic products, which is a big challenge for the domestic industry.

To respond to the dynamics of global trade and the impact of this trade war, President Joko Widodo at the time asked relevant ministers to tighten imports of eight different commodities. One of the main categories was electronic products. This step was taken because imported goods had flooded traditional markets and e- commerce sites, causing traditional markets to be deserted and triggering layoffs in textile factories.

The concept of liberalization promoted by the United States resulted in v world order and also predictions that economics replaced geopolitics as *wer* that drives international politics. One of them can be seen in ıational trade activities and cooperation carried out by all countries. , many countries have made trade alliances to eliminate tariffs among alliances under the name FTA (Free Trade Area).

Although the GDP of the United States is still listed as the number one largest economic power in the world, China has now made rapid progress since when China reformed its economy and liberalized its trade regime in the late 1970s in 1979 the total trade in goods between the United States and China has increased rapidly by US $ 2 billion since then China's economic reforms began (Morrison, 2018). China, which was once a poor country, has now become a world economic power and has reached the second position that balances the United States (Saragih, 2018).

Of course, the rapid economic development is very impactful for progress in other fields so that it further strengthens China's position in the international world. The following data on the world's largest economy projected by the IMF in 2017 are: in the first place is still occupied by the United States with 19.4 trillion US dollars, in second place is occupied by China with 11.9 trillion US dollars, third place is Japan with 4.9 trillion US dollars, fourth place is Germany with 3.7 trillion US dollars, in fifth place is France with 2.575 trillion US dollars, in sixth place is Britain with 2.565 trillion US dollars, and seventh place is India with 2.4 trillion US dollars. (Kompas.com, 2018) President Donald Trump's policy to impose import tariffs could backfire in the United States. China is not alone in threatening to end tariffs on steel and aluminum imports. President Trump finally eled, but until May 1, 2018, he also directed the policy to the main trading ers of the European Union, Argentina, Australia, Brazil, Canada, co and South Korea.

Instead of benefiting, the United States will face resistance and other countries will retaliate with new import tariff policies.

International Economics assumes that four levels of conflict can occur in the process leading to a trade war. First, the United States has introduced a new, very high import tariff policy. Second, countries other than the United States respond by implementing similar policies to import US goods into their own countries. Third, the world economy is heading towards a trade war in the future. Fourth, there is a real trade war that involves many countries and affects the world economy. (Saragih 2018).

This is not expected to happen as world trade volumes are slowing down and affecting all countries. Trade wars affect the world's supply chains, forcing many companies to recalculate production lines, distribution, and costs. Under these circumstances, all countries, businesses, and consumers need to adapt to the new economic situation. Chinese President Xi Jinping said he would adopt an open economic system to make it easier for the United States and China. This includes reducing tariffs on car imports and protecting the intellectual property of foreign companies based in China. This policy was introduced due to the slow pace of economic reform in China. China has chosen to mitigate the trade war to reduce escalation and as per the market's wishes. China recognizes that in the event of a trade war between the two countries, its economy will go into a major recession and will have a very us impact on the economic process initiated by Xi Jinping. So China is g to find a compromise.

China-US relations are by far the worst, and this situation does not seem to change. Joe Biden's interim diplomatic strategy states that China is the only US competitor that can combine its sustained economic, diplomatic, military and technological capabilities to become a global challenger. In the face of the disastrous Covid-19 pandemic during the Donald Trump administration by campaigning for the benefits of a more progressive social and economic model from China.

In the field of trade, the United States and China are countries that are known to be strong with the nickname of superpowers or *great powers* with this power can affect the global economy, especially in terms of Export-Import. As explained above that the trade war that occurred between the US and China had a global impact if it was narrowed down again, there are things that need to be considered again, especially the impact of the trade war on Indonesia, especially in the field of Export-Import of Electronic goods. Related to this, the author raises research with the title Analysis of the Impact of the US and China Trade Wars on Import-Exports of Indonesian Electronic Goods.

B. LIMITATIONS AND PROBLEM FORMULATION

This study aims to analyze the impact of the US-China trade war on exports and imports of electronic goods in Indonesia. By understanding the changes in trade patterns and their impact on the Indonesian economy, it is expected to ...ide insights for policy makers and industry players in responding to these ...al dynamics. The impacts studied will include changes in import tariffs, ... policies, and the economic consequences generated by this trade war, particularly in relation to Indonesia's trade relations with the US and China. The main geographical area of concern is the impact on Indonesia's export and import flows, with an emphasis on the most affected export and import commodities. This research will consider the role of the Indonesian government in responding to the impact of this trade war and the efforts taken to maintain trade stability. Based on the problem boundaries above, the formulation of this research problem is as follows:

1. How the US-China trade war unfolded during the period 2022-2023
2. How will the trade war between the United States (US) and China during the period 2022-2023 impact the import and export of Electronic goods in Indonesia?

C. RESEARCH OBJECTIVES AND BENEFITS

1. To contribute academic knowledge on the impact of the trade war betweenthe United States (US) and China on Indonesia's import-export, particularlyin terms of changes in import tariffs, trade policies, and economic consequences.
2. To identify patterns related to changes in international trade flows, which can be the object of further research in economics, international relations, and trade studies.

With these research objectives, it is hoped that this research can be useful as:

1. This research will contribute to the development of academic knowledge in the field of international economics and international

trade, by providing new insights into the impact of the US-China trade war on developing countries such as Indonesia.

2. The findings of this study can provide a basis for further research by academics and other researchers in exploring more detailed aspects of international trade and trade policy changes.
3. The results of this study can be a source of reference and data for students, researchers, and academics who are interested in understanding the impact of trade wars in the context of the global economy and international relations.

D. CONCEPTUAL FRAMEWORK

1. Liberalism

Basically, economic liberalism is a doctrine that believes the state should intervene minimally in economic affairs, allowing individuals who are successful in the market to organize themselves without excessive hindrance. Liberalism views this theory as a useful framework for understanding various phenomena in an economic context. One school in liberalism argues that economic interdependence between countries can prevent the use of military force in international relations because war is seen as a threat to the prosperity of all parties. (M.Saeri, 2012).

In addition, liberalism also promotes the idea of a free market, where every country is expected to establish economic cooperation without barriers. This cooperation is not only limited to the state level, but also involves various non-state actors such as non-governmental organizations

(NGOs), multinational corporations (MNCs), and individuals. Classically, liberalism seeks to limit state power in order to increase individual freedom. However, in some cases, it is thought that the state is still necessary to ensure fair competition in the market and maintain economic freedom, as the existence of monopolies can threaten freedom itself. (Fred Hayek 1973, in Anonymous (n.d)) In other words, economic liberalism emphasizes the importance of individual freedom in economic activity, while recognizing that there is a needed role for the state to ensure fair competition and prevent monopolies that can harm economic freedom.

Economic freedom is seen as the main foundation in creating overall prosperity. This concept emphasizes that individuals should have the freedom to manage their economic needs and activities without excessive interference from the state. With this freedom, individuals can innovate, strive, and cooperate to achieve their economic goals, which in turn will promote economic growth and social welfare. This view is largely based on the thinking of Adam Smith (1773-1790), an 18th century Scottish economist and philosopher. In his famous work, "The Wealth of Nations", Smith introduced the concept of a free market economy based on the principle of laissez-faire, where he stated that government interference in the economy should be minimal.

For him, the economic success of a country depends on the ability of individuals to organize themselves and participate in economic activities without excessive hindrance from the state. Smith viewed that a country's economic success depended not only on individual productivity, but also on the ability to participate in international trade. He believed that free trade between countries would allow for a mutually beneficial exchange of goods and services, which would ultimately increase overall prosperity. In the context of the duties of the state, Smith identified three main functions that the government should perform: (Dr. Soelistyo MBA & Drs. Nopirn MA. 1997)

4. Defense of the country from external threats: The government is responsible for protecting the country's territory from foreign attacks and threats.
5. Enforcement of domestic law and justice: The government must ensure compliance with the law and provide legal protection for citizens.
6. Infrastructure development and community institutions: The government needs to engage in the development of public infrastructure such as roads, bridges, and other basic services needed to support economic activity. However, Smith also emphasized the importance of making room for private initiatives in economic activities. According to him, most businesses should be managed by the private sector as this will ensure the most efficient use and allocation of factors of production, thus maximizing overall output.

2. Trade War

A trade war is an economic conflict that will result in a country experiencing an inhibition of the trade cycle by increasing tariffs as high as possible to the country that will be the target country. This will be reciprocated if the country suffers losses (Chen, 2019). In trade, the international law that applies is the *General Agreement on Tariff and Trade*. Countries under the auspices of the WTO have the right to protect domestically produced products, by applying tariff barriers in export and import activities. According to Arif Gunawan (2019), trade wars have occurred in the past, for example in 1930 where the US imposed a policy of increasing tariffs on agricultural and livestock products from Europe known as "*The Smoot-Hawley Tariff Act*". Ironically, the policy resulted in a "*boomerang*" effect for the US where they not only got a fight back from Europe but their trade was attacked by the whole country.

This is because the US protectionist policy resulted in a decline in world economic activity which led to a global recession. Therefore, protectionist policies do not always benefit a country that enforces them and these policies can affect other countries that trade with these countries, so that they can harm themselves as the US felt in 1930. Even the US as the world's largest economy has a significant influence on the global economy. Based on these facts, trade wars are a result of protectionist policies enacted between countries that can harm various parties that trade with that country.

In the context of trade wars, export and import tariffs are tools often used by countries to influence international trade. When two or more countries are involved in a trade conflict, they may take protectionist measures to protect their domestic industries or retaliate against actions taken by their trading partners. For example, in the trade war between the US and China, both countries impose higher import tariffs on goods from the other country in an attempt to limit imports and increase the competitiveness of their domestic products. The US may increase import tariffs on Chinese products such as steel and technology, while China may retaliate by increasing import tariffs on US products such as soybeans and automobiles. (Baldwin 2019).

In addition to increased import tariffs, there is also the possibility of using export tariffs, although this is less common in the context of modern trade wars. Countries may apply export tariffs to control the output of natural resources or to influence prices in international markets. However, the use of export tariffs is often less common as it can generate protests from trading partners and have a negative impact on trade relations. In addition, tariff retaliation is also an important aspect of trade war dynamics. When one country imposes import tariffs on another, the affected country may respond by increasing import tariffs on products from the first country. This can trigger a spiral of increasing import tariffs that increases trade tensions and complicates trade negotiations between the two sides.

E. RESEARCH METHODS

1. Research Type

The type of research used is a type of qualitative research that has an explanatory nature. The use of qualitative methods is used to understand a phenomenon related to behavior and actions that are described in detail by relying on non-numerical data. Bryman (cited in Hammersley, 2013) suggests that qualitative research is a research strategy that usually emphasizes words rather than quantification in data collection. Through a qualitative approach, the author will analyze the impact of the US and China trade wars on the context of exports and imports of electronic goods in Indonesia.

2. Data Collection Techniques

The data collection technique used by the author in this *research* is *library research* or literature study as secondary data research and primary data processing. With the library study technique, the author will collect data from various sources of literature relevant to the topic of this research. For primary data, the author will collect data from official government reports, official government statements, and other official documents that can be obtained on official government websites, especially from the United States and China. Meanwhile, secondary data will be obtained through books, journals, articles, documents, and credible news websites, as well as international non-governmental organizations, such as the

Council on Foreign Relations, Center for Strategic and International Studies (CSIS), and so on.

3. Data Analysis Technique

F. WRITING SYSTEM

Following is a description of the systematics of research writing which is organized into five chapters, among others;

CHAPTER I INTRODUCTION. This chapter describes the general description of this research which includes background, limitations and problem formulation, research objectives and benefits, conceptual framework, research methodology, and research writing systematics.

CHAPTER II LITERATURE REVIEW. This chapter describes the theoretical studies in the concepts that will be used in this research, namely the concept of International Cooperation and the concept of eradicating corruption.

CHAPTER III GENERAL OVERVIEW. This chapter describes the general description and issues that will be examined, which include the development of Indonesia-GOPAC cooperation on the prevention and eradication of corruption in Indonesia.

CHAPTER IV ANALYSIS AND RESEARCH RESULTS. This chapter describes the results of the analysis of the formulation of the problem studied by the researcher, namely the Government of Indonesia-GOPAC cooperation strategy for efforts to prevent and eradicate corruption in Indonesia and the ct of the cooperation strategy between the Government of Indonesia-AC on efforts to prevent and eradicate corruption in Indonesia.

CHAPTER V CONCLUSION. This chapter describes the conclusions from theresults of the research on the formulation of the problems studied and the suggestions of researchers related to the study above.

CHAPTER II

LITERATURE REVIEW

A. LIBERIALISM IN INTERNATIONAL TRADE

Economic liberalism is one of the underlying understandings of the trade war between the United States and China. It refers to an economic approach that promotes free trade, foreign investment, and minimal restrictions on the flow of goods and capital across countries. Economic liberalism supports free trade without excessive barriers such as tariffs or quotas. It is based on the argument that free trade will provide greater benefits to both trading countries and the world at large, and promote greater prosperity than not trading.

The justification coming from the theory of international trade is that, the main motivation in conducting international trade is to obtain profits which are also called gains from trade. These gains consist of two types, namely (1) production gains (gains from specialization) where international trade encourages the reallocation of resources to more efficient sectors so that production costs are cheaper and producer income increases. (2) consumption gains (gains of exchange) where international trade can also provide easy access to cheaper goods. According to Salvatore (2004) in Nongsia, Flora, Susan, Pos Hutabarat, and Indraswati, the theoretical basis of international trade is the background of international trade liberalization. Among others, the theory of ...rative advantage and factor endowment theory. David Ricardo perfected ...s theory of absolute advantage by proposing the theory of comparative advantage. The theory of comparative advantage states that under free trade conditions, even though one country is less efficient in absolute terms than the other in producing both goods, while the other country actually has an absolute advantage in producing these goods, it is still possible for both countries to trade and the benefits of trade can still be felt.

Economic liberalism is one of the underlying understandings of the trade war between the United States and China. It refers to an economic approach that promotes free trade, foreign investment, and minimal restrictions on the flow of goods and capital across countries. Economic liberalism supports free trade without excessive barriers such as tariffs or quotas. The trade war between the US and China strongly reflects the disagreement over tariff policy and fair trade. Liberalism emphasizes the importance of free access to foreign investment and global markets. The US often accuses China of unfair practices such as intellectual property theft, restrictions on trade, and unfair trade policies.

The concept of free trade is an outgrowth of the thinking of classical economists, especially pioneered by Adam Smith and David Ricardo. The two classical economists corrected the thinking of the mercantilists who practiced protectionist trade. The Markantilists considered that if a country (kingdom) wanted to prosper, it needed two policy models simultaneously, namely encouraging exports as much as possible and strictly limiting imports from other ies so that the country concerned had a lot of means of payment (money). esult, in carrying out the practice of protectionism, countries that adhere to mercantilism use their wealth to buy weapons to suppress other countries. Smith thought that the mercantilist way of thinking was irrelevant, because the measure of a nation's prosperity is not determined by the amount of means of payment it has, but is measured by the amount of Gross Domestic Product (GDP) and how much exports contribute to GDP. Liberalism promotes an organized and fair global trading system, as reflected in the World Trade Organization (WTO). Trade conflicts between the US and China often involve debates about the fairness of international trade rules and the involvement of the WTO in resolving trade disputes. (Arham, 2018).

This policy of liberalism is a trade policy adopted by a country that reflects a move towards a more neutral or open direction. The shift towards more openness involves intensive equalization among trade sectors. The policies of a regime that is considered to be implementing liberal policies can be characterized by the increasingly important role of trade in the economy. Liberalization policy can be achieved through several ways such as the reduction of barriers such as the implementation of export subsidies. The liberalization of world trade has drawn pros and cons among experts and the international community. In the theory issued by Adam Smith as the main proponent of liberalism, it is shown that international trade is a stimulus for growth through the expansion of markets for domestic producers and the opportunity to ...uce the latest technology. With free trade, countries can benefit from the ...lization of production and export of goods and services that they produce ...wer cost than other countries. On the other hand, countries can also import the goods and services they need from other countries at a lower cost and allow access to unregulated markets and information. Free trade is also thought to promote economic growth and create new jobs. However, free trade can also have a negative impact on the industrial and employment sectors in countries that are less competitive in international trade. Therefore, free trade policies need to be carefully considered to ensure that the gains outweigh the losses. Free trade is regulated by organizations such as the *World Trade Organization* (WTO) The existence of the WTO plays an important role in international trade. Some of the roles of the WTO in international trade are:

1. Regulating the Conduct of Trade

   One of the roles of the WTO in international trade is to regulate the course of commerce to make it smoother and safer. As explained earlier, the WTO encourages the liberalization of international trade. In order to make the implementation of free trade more orderly and safe, the WTO applies a number of rules to help member countries open their markets to other member countries.

2. Encouraging Healthy Competition

   The next role of the WTO in international trade is to encourage healthy competition among member countries. The implementation of free trade certainly makes every country strive to revive its economy. This can rtainly trigger competition. Well, the existence of the WTO plays a role creating healthy competition in international trade, so that it can help inimize conflict.

3. Securing the Economies of Member States

   The last role of the WTO in international trade is to ensure the economy of member countries. In this case, the WTO seeks to assist producers of goods and services, importers, and exporters in carrying out their activities. That way, the trade activities of member countries can be smoother, which can help improve living standards and expand employment.

As for the WTO functioning as an international trade organization, the WTO has a number of functions. The functions of the WTO are:

- Support the implementation, regulation, and administration of agreements that have been reached in order to realize the goals of economic cooperation.
- As a place for member countries to discuss agreements that have been reached, reconcile countries experiencing disputes over trade disputes, to form a global economic policy framework together with the World Bank and IMF.

In practice, many countries still apply market barriers such as tariffs, quotas, and strict regulations to protect domestic industries from foreign competition (Krugman, 1991). These barriers often aim to protect domestic jobs and ensure local economic stability. According to Krugman, these protectionist policies can reduce the benefits of free trade by creating inefficiencies in resource allocation. These two concepts are at opposite ends of the spectrum; *free trade* aims to remove trade barriers while market barriers are meant to protect the domestic ny from the negative effects of international trade. Market barriers are ntroduced in response to challenges faced by domestic industries, such as the inability to compete with the lower prices of imported goods (Rodrik, 2011). In other words, while free trade seeks to open markets, market barriers restrict trade flows to protect national interests.

Competition in a free market economy is the process by which firms compete for market share by offering better or cheaper products and services (Porter, 1980). Competition is considered a mechanism that encourages innovation, efficiency, and improved product quality, which ultimately benefits consumers. Market barriers can reduce the intensity of competition by restricting the entry of cheaper and higher-quality foreign products (Helpman & Krugman, 1985). Tariffs and quotas, for example, make imported products more expensive and less competitive than domestic products. This may provide short-term benefits to local producers, but in the long run may reduce incentives for innovation and efficiency.

Trade wars occur when countries impose tariffs or other trade barriers on each other in response to perceived harmful trade policies (Irwin, 2017). Trade wars are often triggered by protectionist policies that seek to protect domestic industries from international competition. Healthy competition in the global marketplace can be disrupted by trade wars. When countries impose retaliatory tariffs on each other, the cost of imported goods rises, and trade volume decreases. This not only hurts consumers who have to pay higher prices but also hurts producers who rely on export markets (Bown, 2019).

rade wars can reduce competition by increasing entry barriers to certain ts. For example, the trade war between the United States and China in

2018-2019 led to significant tariff increases on various goods (Bown, 2020). As a result, companies in both countries had to find alternative markets or face declining sales, which in turn reduced competition in the global market.

1. Impact of Free Trade on Competition: Free trade promotes competition by opening markets and removing trade barriers. This allows foreign firms to enter the domestic market and compete with local producers, which encourages quality and efficiency improvements (Bhagwati, 2002).
2. Market Barriers as a Response to Free Trade: When free trade causes great competitive pressure on local industries, governments may impose market barriers as a form of protection. These barriers may help domestic industries survive in the short run but may reduce incentives to innovate and improve efficiency (Krugman, 1991).
3. Trade War as Escalation of Market Barriers: If protectionist policies such as tariffs are widely implemented, other countries may respond by imposing retaliatory tariffs, which may trigger a trade war. Trade wars result in increased trade costs, decreased trade volumes, and disruption of global supply chains (Irwin, 2017).
4. Impact of Trade War on Competition and Free Trade: Trade wars reduce the intensity of competition and contradict the principle of free trade. Increased tariffs and other trade barriers restrict the flow of goods and services, which hurts consumers and producers in both countries involved (Bown, 2020).

- Free Trade Leads to Competition: Free trade opens markets and encourages international competition.
- Competition Leads to Market Barriers: Increased competition triggers the government to impose market barriers to protect local industries.
- Market Barriers Trigger Trade War: Widely applied market barriers can trigger a counter response from other countries, leading to a trade war.
- Trade War Reduces Free Trade and Competition: Trade wars increase trade barriers, which reduce the flow of goods and services and hamper competition.

B. FREE TRADE

At the end of World War II (WWII), international trade was in an unstable state, with many of its supporting components suffering both institutional and physical damage. As we entered the second half of the 20th century, efforts to negotiate international free trade intensified and eventually resulted in the establishment of the GATT, which was later followed by the WTO. After the second world war, the WTO was established by its member states with common goals stated in its preamble. In addition to the GATT, various international organizations were also established to harmonize economic life between countries. The International Monetary Fund (IMF) was established based on the Bretton Woods Conference to regulate world currency exchange and monetary , while the World Bank was formed to support economic development and turing.

The participation of countries in the GATT has grown significantly. From only 23 initiating countries in 1947, the number increased to 125 countries that signed the WTO when it replaced the GATT. The WTO provisions control 90% of world trade. This is evident in the fact that total world trade in 1997 was 15 times greater than in 1950.

One of the most important functions of the WTO is to facilitate the implementation, administration, and promotion of the objectives of the agreement establishing the WTO and other related agreements. With the establishment of the WTO based on the Uruguay Round of the GATT, several basic principles of free trade that are at the core of neoliberal trade and economic policies were recognized by the international community, especially by WTO member countries. The basic principles of free trade include:

4. Most-favored nation (MFN) principle: The MFN principle is the foundation of free trade, which requires nondiscrimination in trade. trade. This means that each member country of the GATT/WTO must not differentiate treatment between one member country and another. All countries must be treated equally without giving special privileges to one particular country regarding tariffs and privileges to one particular country regarding tariffs and trade. However, there are exceptions for certain cases such as regional trade agreements or exceptions for developing countries that are or exemptions for developing countries that have existed since the GATT agreement was negotiated.

5. The principle of non-tariff measures: This principle suggests that countries members of the GATT/WTO avoid protecting domestic industries that are non-tariff measures. If protection is needed, it should be done through clear tariffs so that competition can still occur. Examples examples of non-tariff protection are quota systems, health regulations, and arbitrary technical standards.
6. National treatment: This principle requires WTO member countries to not differentiate the treatment between domestic business actors and foreign foreign businesses from other WTO member countries. Fair treatment This fair treatment must always be maintained to support fair free trade.
7. Transparency: This principle of openness is important to maintain accountability of the WTO organization. Although not all information can be made public to the public, the principle of transparency must still be practiced to ensure that the international trade process is honest and open. that the international trade process is fair and open.
8. Quantitative restriction/quotas: Quantitative restrictions or quotas in international trade among WTO members are not justified. If restrictions are needed, they should be done through tariffs, which have been reduced as much as possible through several rounds of negotiations. With these tariff restrictions in place, trade is still possible despite having to pay higher tariffs. trade is still possible despite having to pay higher tariffs. (Prananda, 2023: 1225-1226)

By removing trade barriers, free trade opens domestic markets to foreign products and services. This increases competition in the domestic market as local producers have to compete with foreign producers who may have comparative advantages. For example, a country that specializes in the production of high technology will compete with other countries that have rapidly growing technology industries (Krugman, 1991).

Trade competitors refer to countries or companies that compete in the global marketplace for a larger market share in the trade of goods and services. This competition can occur across a wide range of industries and economic sectors, from manufacturing to technology and financial services.

International trade competition can be influenced by a variety of factors, including:

1. Comparative Advantage: Countries with an advantage in production production tend to be the main competitors in that sector.
2. Trade Policy: Tariffs, subsidies, and regulations can affect a country's competitiveness in the global market.
3. Innovation and Technology: Investment in research and development can provide a competitive advantage.
4. Quality and Price: Products with high quality and competitive prices are competitive prices are more likely to succeed in the international market.

In the context of free trade, trade competitors become more prominent as ountry or company seeks to capitalize on the opportunities offered by the market. Countries with free trade policies tend to have more international competitors entering their markets, increasing the dynamics of competition. For example, technology companies from the United States have to compete with companies from Japan, South Korea, and China in the global market (Porter, 1980).

Free trade encourages companies to become more efficient and innovative to remain competitive in the global market. Firms that are unable to adapt to competitive pressures are likely to be left behind, while firms that innovate can gain a competitive advantage. For example, in the automotive industry, firms that adopt new technologies such as electric vehicles can compete better in the global market (Grossman & Helpman, 1995).