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Issue Brief

A Looming Trade War Between China and USA

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During his election campaign, the US President Donald Trump made some alarming statements. One of them was about threatening China against a 35% to 45% tariff on all imported goods from the country, which he also said would not be “willy-nilly.”¹ Trade sanctions against China were a cornerstone of his election campaign. He went on to accuse China for being the biggest currency manipulator, which is ripping the US economy apart. Mr. Trump’s unexpected policy moves have already unnerved the global structure and Sino-America trade war will present a very significant turning point in the global economic facade.

The American and Chinese economies are intricately dependent on each other. The US goods and services trade with China totaled an estimated \$659.4 billion in 2015 and exports were \$161.6 billion, while imports were \$497.8 billion. The US goods and services trade deficit with China was \$336.2 billion in 2015. China is currently the US’ largest goods trading partner with a \$598 billion in total (two way) goods trade during 2015.² This shows that US and China are bound in economic co-dependence. They have both become increasingly reliant on each other for sustainable economic growth and anything that happens between the two countries would send shockwaves across the globe as the countries have increasingly become dependent on each other for trade benefits.

¹ <http://opinion.premiumpost.com/2017/02/11/impacts-of-the-looming-us-chinese-trade-war-on-emerging-economies-by-eziukwu-princewill/>

² <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>

The words of Mr. Donald Trump need to be taken with caution. He has already lived up to some of his promises like backing out of the Trans-Pacific Partnership (TPP), banning the entry of Muslims from specific countries mentioned in a list and issuing an executive order for erecting a wall along the US-Mexico border. On December 21, 2016, Peter Navarro was made the head of White House National Trade Council.³ He is the champion of the protectionist agenda and is much known for attacking China in his previous statements. He is a zero-sum economist, who, like Trump, believes that every item not made in the US symbolizes the theft of job from an American.⁴ It is expected that Mr. Navarro will play an integral role in shaping Trump's economic policies. Therefore, the threat of Sino-American trade war is not just rhetoric, but also real and is most likely going to change the economic landscape of the world.

The most instant effects would possibly be felt by companies like Wal-Mart that import billions of dollars of cheap goods from countries like China and which are bought mostly by the people who voted for Trump and won him his new office. The prices of almost all of these products would swiftly skyrocket, getting beyond the reach of the lower economic bracket of the population, not because of manufacturing costs, but because of the tariffs.⁵ Furthermore, China has frequently pointed out that it is responsible for 2.6 million jobs in the USA through their trade relations. Hence, America might lose more from this looming trade war.

China will not permit itself to be taken lightly. It will not merely sit down and watch, rather it will follow a 'tit for tat' policy towards the US. Chinese trade experts who have ties with their government have given a hint that if the Trump administration imposed barriers against Chinese goods, they would be ready to retaliate through other steps like switching aircraft contracts from Boeing to Airbus, diverting food import contracts to rival countries like Brazil, and, possibly making it more difficult for Apple to sell iPhones in China.⁶ However, at the conference of the World Economic Forum at Davos in January 2017, the Chinese President said, "No one will emerge winner in a trade war."⁷

A trade war will harm both the countries and it will also send a wave of uncertainty among other countries in the world too. It would be like lose-lose situation for both economic giants. There is no place for protectionist orientation in this increasingly interconnected global world. However, one cannot

³ https://www.washingtonpost.com/business/economy/meet-mr-death-by-china-trumps-inside-man-on-trade/2017/02/17/164d7458-ea25-11e6-80c2-30e57e57e05d_story.html?utm_term=.b214186e611b

⁴ <http://www.politico.com/magazine/story/2017/02/peter-navarro-trump-trade-china-214772>

⁵ http://europe.chinadaily.com.cn/opinion/2017-02/15/content_28201876.htm

⁶ https://www.nytimes.com/2017/01/18/world/asia/liu-he-china-trade-trump.html?_r=0

⁷ <http://www.globaltimes.cn/content/1029666.shtml>

ignore Mr. Trump's rhetoric and the world might see a shift in China-US economic relations, which would trigger a trade war. These are still early days of the Trump administration, and one will have to wait and see how the future unfolds in the coming days.

The US following a path towards protectionism not only entails trade war with China, but also repercussions for other countries, especially those of the Asia Pacific region that are traditional US allies, including Japan. Left without a choice, these hitherto trading partners would have to look towards an increasing willing China for trade, and inevitably increase their dependence on it, which would be a major step allowing China to dominate the region not only economically, but also politically, at the cost of American dominance. However, the trajectory that the US economy will ultimately take is yet to be seen.