



### US-CHINA TRADE WAR: ONE YEAR AFTER

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*(Views expressed in the brief are those of the author, and do not represent those of ISSI)*



The month of July marked one-year anniversary of Sino-US trade war. Multiple events led to mounting tensions between the two states, however, on July 6, 2018 US implementation of first China-specific tariffs served as a final nail in the coffin. US Customs and Border Protection (CBP) imposed a 25% tariff (previously 10%) on 818 imported Chinese products worth US\$34 billion.<sup>1</sup> China reciprocated by imposing tariffs on US\$110 billion of US products (ranging between 5% to 25%) including tariffs on chemicals, coal and medical equipment.<sup>2</sup>

Protectionism is considered to be a key tool in President Donald Trump's "America First" policy. President Trump ran his presidential campaign on the promise of tearing up or renegotiating any trade agreements that disadvantaged American working class. President Trump's withdrawal from Trans Pacific Partnership (TPP) and rectification of North American Free Trade Agreement (NAFTA)/US-Mexico-Canada Agreement (USMCA) are its direct manifestations. The trade politics with China is also an offshoot of the same policy.

Owing to globalization and division of labor, the trade battles between states lead to global consequences. The US-China trade battle similarly has multiplier effect as it disrupts the global value

<sup>1</sup> Wong, Dorcas, and Alexander C. Koty. "The US-China Trade War: A Timeline." *China Briefing News*. Last modified July 3, 2019. <https://www.china-briefing.com/news/the-us-china-trade-war-a-timeline/>.

<sup>2</sup> "A quick guide to the US-China trade war." *BBC News*. Last modified June 29, 2019. <https://www.bbc.com/news/business-45899310>.

chain.<sup>3</sup> Though negating a threat of global recession resulting from US-China trade war, the IMF Managing Director Christine Lagarde stated that escalating tariff threats have exhausted business and market confidence and could slow down global growth in 2020.<sup>4</sup> The IMF cut its estimate for global growth in year 2019 to 3.3% and warned that US-China tariff war could slash global gross domestic product (GDP) by 0.5% or about US\$455 billion in 2020.<sup>5</sup>

Mark Carney, governor Bank of England, warns of the potential damage the global economy may face because of this trade war. The business investment growth rate in G7 countries has already sliced to half since escalation of tensions, leaving global expansion a subject to consumer spending.<sup>6</sup> Bloomberg Economics' modelling for the global risk of trade war portend that fall of exports of each contender may impose a direct risk to economies which are linked to their supply chain. With a decline in China's exports to US, Asian economies like Taiwan, South Korea and Malaysia would be most impacted. Similarly, affectee list for U.S side include Mexico, Canada, and Kingdom of Saudi Arabia among the rest.<sup>7</sup>

US and China momentarily reached a tentative truce in the year long war as announced by President Donald Trump at the 2019 G20 Osaka Summit.<sup>8</sup> Nevertheless, the truce did not guarantee a deal. A permanent resolution is also nowhere in sight as trade pressures prevail.

In July 2019, China posted its slowest economic growth in 27 years i.e. 6.3% as tensions continue to mount.<sup>9</sup> However, this could be part of a deliberate strategy to slow down to avoid the ominous fall as the growth rate was fairly within the year's target range of 6 to 6.5% growth.

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<sup>3</sup> Jackson, Karen, and Oleksand Shepotylo. "Meet the Winners and Losers in a U.S.-China Trade War." *The National Interest*. Last modified June 29, 2019. <https://nationalinterest.org/blog/buzz/meet-winners-and-losers-us-china-trade-war-64936>.

<sup>4</sup> Lawder, David. "IMF's Lagarde Warns U.S.-China Tariffs to Slash Global Growth in 2020." *Reuters U.S.* Last modified June 6, 2019. <https://www.reuters.com/article/us-g20-japan-imf/imf-warns-u-s-china-tariffs-to-slash-global-growth-in-2020-idUSKCN1T61P5>.

<sup>5</sup> Ibid.

<sup>6</sup> Inman, Phillip. "Trade Wars Could Shipwreck Global Economy, Warns Mark Carney." *The Guardian*. Last modified July 4, 2019. <https://www.theguardian.com/business/2019/jul/02/trade-wars-could-shipwreck-global-economy-warns-mark-carney>.

<sup>7</sup> Holland, Ben, and Cedric Sam. "A \$600 Billion Bill: Counting the Global Cost of the U.S.-China Trade War." *Bloomberg*. Last modified May 28, 2019. <https://www.bloomberg.com/graphics/2019-us-china-trade-war-economic-fallout/>.

<sup>8</sup> "G20 Summit: Donald Trump Announces US-China Trade Truce." *YouTube*. June 29, 2019. <https://www.youtube.com/watch?v=PYJeboBeryM>.

<sup>9</sup> Fifield, Anna. "China posts slowest economic growth in 27 years; Trump touts 'major effect' of tariffs." *Duluth News Tribune*, July 15, 2019. Accessed July 22, 2019. <https://www.duluthnewstribune.com/news/world/3972073-China-posts-slowest-economic-growth-in-27-years-Trump-touts-major-effect-of-tariffs>.

A key US demand for ending the war was a reformation in China's state-directed economic model and "Made in China 2025 Plan", which hampered the free market system generally and American competitive advantage particularly. Conversely, China is strengthening the very same economic model. Domestically, in Beijing's policymaking and Chinese academic circles, there exists a vocal faction which calls for sticking to the current development model, regardless of the pressure exerted from the US side.<sup>10</sup>

The war is nowhere near de-escalation. President Trump at the beginning of August 2019 declared in a statement that new round of taxes will be added on consumer goods from China after September 1, 2019. The subsequent drop in Chinese Yuan as compared to dollar is also being perceived as start of currency war between the two.<sup>11</sup>

As US and China happen to be the top two economies of the world, this trade war is not like any other bilateral feud. With many peripheral economies linked to the US-China trade process, much more is at stake. The war has already continued for a year signalling significant damages to individual economies along with the global economy. If the risk prevails and de-escalation is not observed soon, the threat of another global recession is inevitable. The trade war will inescapably reverse the growth and integration achieved through globalization and will leave long lasting economic and political effects.

For Pakistan, the issue of US-China trade war is a lot more pertinent. Pakistan and China - the 'all-weather allies' - are in the middle of completing a multi-billion economic corridor i.e. China Pakistan Economic corridor (CPEC). The CPEC is a flagship project of China's Belt and Road Initiative (BRI) and is expected to shift the region's economic and strategic dynamics. Through CPEC, Pakistan particularly, looks forward to giving its struggling economy a boost by modernizing its ailing infrastructure and empowering the energy sector. Any undesirable happening that damages China's economy will impair Chinese investment in CPEC, ultimately damaging Pakistan's growth and development. Moreover, China is Pakistan's largest trading partner with a share of 16.9% and imports from China covers a portion of 31%. If China's economy continues to remain in pressure, it might result in increased inflation and higher interest rates in global trading environment and ultimately increasing prices of consumer goods in Pakistan inflicting serious harm to its already struggling economy.

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<sup>10</sup> Tang, Frank. "China ignoring US demand for trade war reform by reinforcing state-directed economic model." *South China Morning Post*, July 13, 2019. <https://www.scmp.com/economy/china-economy/article/3018120/china-ignoring-us-demand-trade-war-reform-reinforcing-state>.

<sup>11</sup> Horowitz, Julia. "The United States and China may be headed for a currency war." *CNN Business*, August 5, 2019. Accessed August 8, 2019. <https://edition.cnn.com/2019/08/05/business/usd-yuan-currency-war/index.html>.

Given the changing nature of world affairs, it is highly non-pragmatic for a state to depend heavily on a single partner even if that state (partner) is a major power. This trade war serves as an eye-opener for Pakistan to re-think its over-reliance on China. Pakistan's economic and foreign policy has always lacked diversification. Since straining of its ties with US and the West after the War On Terror, it went for complete strategic and economic reliance upon Beijing. Pakistan must craft an all-out strategy that manages its relations with global powers, while preventing itself from any external effects by increasing its foreign relations with regional and extra-regional countries via internal balancing domestically and reenergizing its foreign policy through proactive diplomacy and soft power projection.