

## China-U.S. Trade War Redux: Global Uncertainties and Opportunities for Pakistan

By

**Muneeb Salman**

*Research Assistant*

*China-Pakistan Study Centre (CPSC), ISSI*

Edited by

**Dr. Talat Shabbir**

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



As Donald Trump is set to enter the White House again on January 20, 2025, there is a scramble across the globe to measure what is going to be the future of U.S. foreign policy as well as America's engagement with the world. Concerns spiked particularly in China, where analysts and observers from all walks had been speculating the implications of a second term of Donald Trump. The first Trump Presidency (2016-2020) was marked by formalisation of the strategic competition with China. At the same time, President Trump's skepticism for globalisation and liberal internationalism pushed NATO to a back foot and scuttled many multilateral arrangements including the Trans-Pacific Partnership (TPP) and the 2015 Paris Agreement.

For the second Trump Administration, the world is anxiously awaiting to see the future trajectory of the U.S.'s China policy. For many observers, the National Security Strategy (2017) of Donald Trump formalised the U.S.-China strategic competition with its repeated references to China and Russia as 'revisionist' states.<sup>1</sup> The Trump Administration consequently waged a trade war on \$380 billion worth of Chinese imports to the United States, triggering reciprocal sanctions and bilateral tensions that

<sup>1</sup> Donald J. Trump, "National Security Strategy of the United States" (The White House, December 2017), <https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>.

persisted until the end of his Presidency.<sup>2</sup> Even during the Biden Administration, many of the Trump-era policies continued and in fact expanded in scope including the sanctions on metals, semi-conductors, electric vehicles (EVs) and batteries, renewable energy sources, port cranes, and medical products.<sup>3</sup>

The immediate macroeconomic impact of initiating the trade war during the first Trump Administration in 2018 remains unclear. The tariffs on Chinese imports did bring them to 2013 levels in the first year after the commencement of the trade war; however, they did not lead to any significant expansion of U.S. exports until the Biden Administration years. A considerable rise in U.S. exports to China amounting to \$150 billion, compared to \$120 billion in 2018, only happened in 2021. The sanctions also did not significantly reduce Chinese imports, except for the covid year (2020) – the only year when increasing trade balance came near the 2013 levels (see Figure 1). It did, however, serve to publicise the U.S. categorisation of China as a ‘strategic competitor’ and restricted trade as well as collaboration in certain sectors, especially emerging technologies, semiconductors, critical minerals, and renewable energy. It was also perhaps the lasting impact of the Trump trade war that the post-covid hike in overall trade of the United States was not proportionally reflected in its bilateral trade with China.

The foremost concern of most analysts for the second Trump Administration remains to be an increase in the severity of the trade war, with lasting implications across the globe. As a first move, Donald Trump has announced that his government shall apply an additional 10 per cent tariff on all imports from China.<sup>4</sup> The threat of sanctions was also issued against Canada and Mexico, two major trade partners, especially for the import of foodstuff. The immediate consequences of these moves are anticipated to spike inflation in the United States and compel China to diversify its exports elsewhere, especially in the high-productivity sectors including EVs and solar panels.

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<sup>2</sup> Mark Magnier, “Trump 2.0: older, more aggressive and potentially a bigger China hawk,” *South China Morning Post*, November 03, 2024, [https://sc.mp/8t296?utm\\_source=copy-link&utm\\_campaign=3284969&utm\\_medium=share\\_widget](https://sc.mp/8t296?utm_source=copy-link&utm_campaign=3284969&utm_medium=share_widget).

<sup>3</sup> “FACT SHEET: President Biden Takes Action to Protect American Workers and Businesses from China’s Unfair Trade Practices,” The White House, May 14, 2024, <https://www.whitehouse.gov/briefing-room/statements-releases/2024/05/14/fact-sheet-president-biden-takes-action-to-protect-american-workers-and-businesses-from-chinas-unfair-trade-practices/>.

<sup>4</sup> James Fitzgerald, Nadine Yousif and Max Matza, “‘No-one will win’ - Canada, Mexico and China respond to Trump tariff threats,” *BBC*, November 27, 2024, <https://www.bbc.com/news/articles/cj6kj2752jlo>.

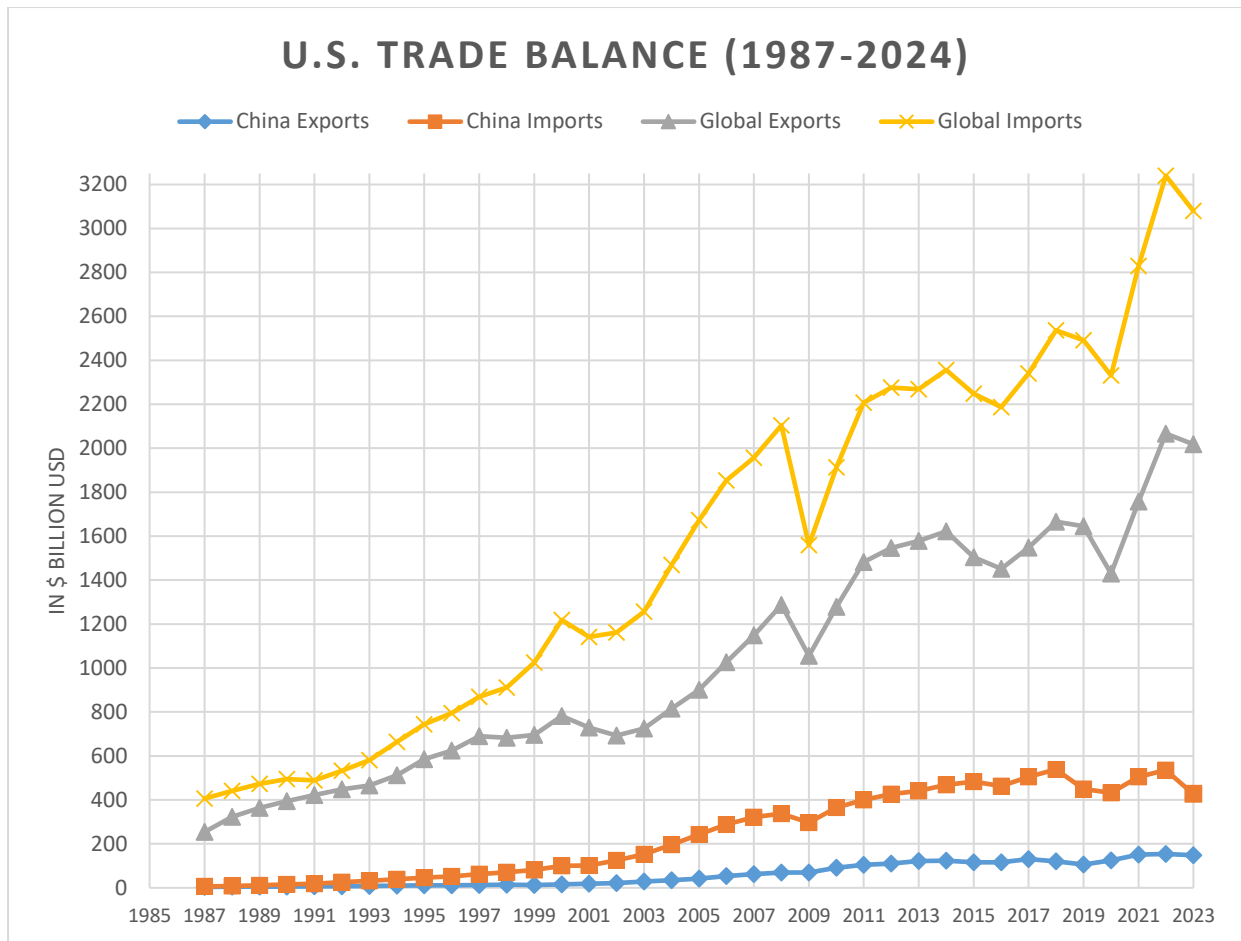


Figure 1. U.S. imports and exports to China and the world according to data from the [United States Census Bureau](#).<sup>5</sup>

At the same time, the Biden Administration’s last spar in economic sanctions with China was the ban on semi-conductor exports to China by companies based in the United States, or those using U.S.-based semiconductor chips, banning some 140 China-based companies.<sup>6</sup> As a response, China banned exports of critical minerals gallium, germanium, antimony and graphite to the United States.<sup>7</sup> In the preceding year, China has been responsible for global production of 59% germanium, 98% gallium and about 48% antimony. Analysts suspect that broader use critical minerals like nickel and cobalt may be targeted as well in the future, if the trade war and exchange of sanctions intensifies.

<sup>5</sup> To see the data in tabular form: <https://drive.google.com/file/d/1k10XLI8vRRse-b40G4QbBRtw-aqh5Zl/view?usp=sharing>.

<sup>6</sup> Karen Kreifeld and David Shepardson, “Latest US clampdown on China's chips hits semiconductor toolmakers,” *Reuters*, December 03, 2024, <https://www.reuters.com/technology/latest-us-strike-chinas-chips-hits-semiconductor-toolmakers-2024-12-02/>.

<sup>7</sup> Amy Lv and Tony Munroe, “China bans export of critical minerals to US as trade tensions escalate,” *Reuters*, December 03, 2024, <https://www.reuters.com/markets/commodities/china-bans-exports-gallium-germanium-antimony-us-2024-12-03/>.

However, despite concerns of trade war, some economists like Huang Yiping of Peking University believe that U.S. sanctions provide China with an opportunity to redirect its excess renewable energy production to developing world markets and may even lead, possibly, according to Yiping, to “China’s Marshall Plan” for green development.<sup>8</sup> Yet, transition to new markets usually takes time and additional costs, especially at a time when Chinese economic growth is already at risk of stagnation. Relocation and oversupply of industrial Chinese exports also put at risk the local industries in developing countries, as might be the case in Pakistan’s power sector as well as in the retail sectors of many developing countries.<sup>9</sup>

A transition on the scale suggested by Huang Yiping, however, can directly benefit Pakistan as one of the prospective manufacturing hubs of renewable technologies. Notwithstanding the access supply of electricity in Pakistan’s energy sector, China is making major investments in the renewable energy sector in the country.<sup>10</sup> BYD, the Chinese EV giant, has already initiated work on a production unit in Karachi. Another Chinese company has reached an agreement to establish 3000 EV charging stations across the country, which presently are about a dozen in number.<sup>11</sup> Chinese solar manufacturing giant AIKO also signed an agreement to establish a manufacturing facility in Punjab in the past year, amid an increasing share of Chinese-imported solar panels in the national grid with one estimate stating import of 22 GW (22000 MW) in 2024.<sup>12</sup> Against this backdrop, the Pakistan Solar Association has suggested that Pakistan may focus on the production and integration of solar power in agriculture and

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<sup>8</sup> Frank Chen, “Economist Huang Yiping on trade war redux under Trump and China’s stimulus ‘U-turn’,” *South China Morning Post*, last updated November 12, 2024, <https://www.scmp.com/economy/china-economy/article/3285836/economist-huang-yiping-trade-war-redux-under-trump-and-chinas-stimulus-u-turn>.

<sup>9</sup> Humza Jilani, “Chinese solar panel boom threatens Pakistan’s debt-ridden grid,” *Financial Times*, September 17, 2024, <https://www.ft.com/content/69e4cb33-3615-4424-996d-5aee9d1afe19>; Luca Ittimani, “China’s ‘mind-blowingly’ cheap shopping app Temu hits roadblocks in south-east Asia,” *The Guardian*, November 18, 2024, <https://www.theguardian.com/technology/2024/nov/18/temu-shopping-app-china-indonesia-vietnam-takedown>.

<sup>10</sup> “China’s BYD plans car plant in Karachi as part of Pakistan entry,” *Reuters*, August 17, 2024, <https://www.reuters.com/business/autos-transportation/chinas-byd-plans-car-plant-karachi-part-pakistan-entry-2024-08-17/>.

<sup>11</sup> “Chinese firm to invest \$350m to establish 3,000 EV charging stations in Pakistan,” *Profit*, December 16, 2024, <https://profit.pakistantoday.com.pk/2024/12/16/chinese-firm-to-invest-350m-to-establish-3000-ev-charging-stations-in-pakistan/>; Naveed Arshad et al., *Pakistan: Electric Vehicles and Batteries Market Assessment* (Lahore: LUMS and US AID, 2024), [https://pdf.usaid.gov/pdf\\_docs/PA00XXDK.pdf](https://pdf.usaid.gov/pdf_docs/PA00XXDK.pdf).

<sup>12</sup> “Chinese company to establish solar panel manufacturing plant in Punjab,” *Profit*, August 11, 2024, <https://profit.pakistantoday.com.pk/2024/08/11/chinese-company-to-establish-solar-panel-manufacturing-plant-in-punjab/>; Christoph S. Sprung and Mujtaba Khan, “Pakistan is experiencing a solar power boom. Here’s what we can learn from it,” *World Economic Forum*, November 25, 2024, <https://www.weforum.org/stories/2024/11/pakistan-solar-power-energy-transition/>.

off-grid sector instead of providing it for industrial use where decrease in demand risks consumption from national grid.<sup>13</sup>

At the same time, decreasing exports of Chinese critical minerals to the U.S. provide Pakistan with the opportunity to attract U.S.-based firms in its mining sector, one of the four priority areas under the Special Investment Facilitation Council (SIFC) framework.<sup>14</sup> This potential has been highlighted by U.S. expert Daniel Runde from CSIS, who recently recommended investing in Pakistan's minerals sector calling it potential "Saudi Arabia of copper," and a possible investment in diversification of supply chains for critical minerals.<sup>15</sup> Runde has also argued for resuming General Scheme of Preferences (GSP) status for developing countries to promote U.S. trade relations, something from which Pakistan can benefit similar to the European Union's GSP+ programme.<sup>16</sup> Investment in Pakistan's minerals sector is an opportunity for many countries seeking to diversify global minerals supply chains because of the fact that China's exchange of sanctions has frequently involved minerals in recent years. In addition to the United States, China traded sanctions with Australia when exports of Chinese copper decreased from \$3 billion in October 2020 to just about \$600 million by the end of 2023.<sup>17</sup>

To conclude, it is correct that exchange of sanctions and trade wars hurt global trade and economies of not only the countries involved but also those who are part of the relevant supply chains. Yet, amidst increasing normalisation of sanctions and economic coercion as policy instruments in recent years, there seemingly are opportunities for developing countries as well. In the past, increasing cost of labour used to provide impetus to relocate manufacturing and supply chains; it appears now that the growing sanctions warfare and trade wars may also present opportunities for developing and smaller economies.

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<sup>13</sup> Tom Kenning, "Pakistan PV manufacturing future may lie in smaller modules for agriculture and off-grid sectors," *PV Tech*, December 19, 2024, <https://www.pv-tech.org/pakistan-pv-manufacturing-future-smaller-modules-agriculture-off-grid-sectors/>.

<sup>14</sup> "Special Investment Facilitation Council (SIFC)," Ministry of Foreign Affairs, accessed January 01, 2025, [https://mofa.gov.pk/sifc-economic-diplomacy#:~:text=Special%20Investment%20Facilitation%20Council%20\(SIFC\)&text=The%20Council%20is%20primarily%20geared,livestock%2C%20IT%20and%20defense%20production.](https://mofa.gov.pk/sifc-economic-diplomacy#:~:text=Special%20Investment%20Facilitation%20Council%20(SIFC)&text=The%20Council%20is%20primarily%20geared,livestock%2C%20IT%20and%20defense%20production.)

<sup>15</sup> Daniel Runde, "I was in #pakistan a few weeks ago...," LinkedIn Post, December 2024, accessed January 07, 2025, [https://www.linkedin.com/posts/danielfrunde\\_expanding-us-pakistan-relations-through-mining-activity-7274074472104562688-uB9Q?utm\\_source=share&utm\\_medium=member\\_desktop](https://www.linkedin.com/posts/danielfrunde_expanding-us-pakistan-relations-through-mining-activity-7274074472104562688-uB9Q?utm_source=share&utm_medium=member_desktop).

<sup>16</sup> Daniel Runde, Thomas Bryja and Meredith Broadbent, "Retooling U.S. Trade to Meet the China Challenge: GSP Matters," Centre for Strategic and International Studies, November 04, 2024, <https://www.csis.org/analysis/retooling-us-trade-meet-china-challenge-gsp-matters>.

<sup>17</sup> "China's trade restrictions on Australian exports," United States Studies Centre, April 02, 2024, <https://www.usc.edu.au/chinas-trade-restrictions-on-australian-exports>.