United States and China, the two countries in the past have been each other’s extensive partner on economic trading, political cooperation, and security interests including proliferation of nuclear weapons since many decades. However, the purpose behind the recent escalated tensions between United States and China is the aggressive approach of the U.S. in order to maintain its hegemony in the region, politically. Being the world’s largest economy in the world but to maintain the low inflation rate in the country, and to stabilize the dollar, the U.S. has embarked upon a trade war with China.
As an emerging super power by effectively meeting high expectations, China is making themselves as the second largest economy of the world, moreover, today its GDP stands higher than the U.S. as per purchasing power parity. These circumstances are indications for the United States fear that China could surpass the U.S. in coming years by all means. Where China’s foreign policy is actively involved in mobilizing investments in energy, transportation, tourism, technology, trade, infrastructure and international relations by using its biggest strength of soft power includes trading, tiring and ailing under mutual beneficial projects with most of the countries to enhance international image and globally benefiting the economies.

The aggressive journey of the U.S. President Donald Trump is embarking to adopt the protectionist policies for U.S. by imposing 25 percent tariffs on selected imports from China, which brought negative impacts because China is the largest steel producer and exporter in the world\(^1\). The escalation of this trade war is not limited to only two countries but it has wider effects on global trade supply chain and directly/indirectly other developing countries involved in global trade circle.

The grand strategy of United States to counter China’s expanding soft power comes with wide range of repercussions such as, sending more troops to Afghanistan and enhancing the Indian role by considering it as a key Partner in the Asian region. U.S.

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policy towards Asia has strengthened its hold along Malacca and Sunda Straits and supporting regional countries against China in South China Sea to counter China’s huge seaborne trade from Malacca strait.

*Trade War*

The world is engaged in a trade war with bigger economies imposing tariffs and duties which can have extensive implications for global trade, countries like the U.S., China, the EU and Canada taking reciprocal measures\(^2\), which may lead to further tariff escalations. Moreover, Pakistan will suffer less due to having limited integration with the global supply chain, but if the escalated trade war turns out to be more intensive by generating new economic blocs and trade dependence of countries on different boundaries, then it will result in a global financial disaster. An old African proverb states that, “When elephants fight, it is the grass that suffers”. Similarly, whenever there are clashes between large economies, it is always the developing states that suffers the consequences. Recently, the emerging war on tariffs and counter tariffs between United States and China is a so called ‘tit – for – tat’ escalation. In line with the agenda of putting America first, U.S. President Donald Trump imposed tariffs

on its allies in a striking act targeted China, Canada, Mexico and the European Union with 50 billion US dollars’ worth of Chinese goods, where China promised to hit back with tariffs on U.S. goods\(^3\). In a meantime, the industrialized countries announced counter balancing measure and EU chief introduces 28 nation bloc for a settlement of dispute with the World Trade Organization (WTO).

**Global Impact**

The Trump’s unpredictable tariff regime has created the perceptions of downturn in global trade, most likely when seeing the history the Smoot Hawley Tariff Act in 1930 when U.S. imposed tariffs by 60 percent, which caused the costs and added strains in the global economic sphere by disturbing the global import volume. However, according to analysts, the consequences of current tariffs are limited in scope but it will result in financial crisis including, stock market crash, currency crisis, banking crisis, an increase in the cost of doing business globally, increased in inflationary pressure on world economies, an increase in key policy rates by central banks, etc.

According to United Nations Conference on Trade and Development (UNCTAD) the Secretary General said that the current trade actions predict a situation in which everyone will lose. In a trade war, economies across a wide range of sectors will lose profits, workers will lose their jobs, government’s revenue and consumers the product choices and in a larger picture no matter where they are it will results higher costs. Moreover, a global trade war might threaten the existing multilateral trading system because averagely if the tariffs applied on developing states the world will see the rise in export from 3 to 37 percent but on the other hand, the average tariff will affect countries which probably could not go above 10 percent, while countries like Mexico will reach to 60 percent. Similarly, Pakistan, Sri Lanka, Bangladesh, Turkey, Ethiopia could face the average tariff increase from 35 to 45 percent.

**US – China protracted competition**

After the President Trump holds the office, the U.S. administration witnessed visible changes with an aim to maintain its hegemony in the region by countering the emerging super power China. The trade war between Beijing and Washington is getting worse day by day. It will harm the two main players but it will also pose challenges to the developing nations. Recently, U.S. sets up a fund assistance initiative aiming strategically to counter China⁴. US sets 300 million U.S. dollars of security assistance fund for nations including Bangladesh, Indonesia, Nepal, Pacific Islands,

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Philippines, Sri Lanka and Vietnam. This funding proposes to reinforce security cooperation, energy and infrastructure development, strengthening maritime security, and develop humanitarian assistance, peace keeping capabilities and counter transactional threats in Indo-Pacific region. Around 290.5 million U.S. dollar have been already funded for security improvements. On the other side, U.S. has also reduced assistance of 350 million U.S. Dollars to 150 million U.S. Dollars for Pakistan which has been deducted because Pakistan has strong relations with China.

The U.S. counter proposed Trans-Pacific Partnership (TPP), a high standard trade agreement that would include 12 countries on both sides of the Pacific – Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, U.S., and Vietnam – while excluding China. Under the TPP arrangement, the U.S. would gain far less in exports, about 191 billion US Dollars, but China would actually stand to lose roughly 100 billion U.S. Dollars in exports as the TPP Nations would shift their trade focus to other TPP member economies. China’s Belt and Road Initiative is also a threat for U.S., because China aims to work on heavily expanding its trade relations by working on ports, railways, power plants, pipelines and many more with European and Asian countries. U.S. considers this project as a threat for changing the world structure, and might be crossed by China in their economy by 2030.

Conclusion

The trade war between the two big economies of the world, by hitting tariffs on key imports vis a vis, will have severe impact including, disruption of component supply
lines with effect on manufacturing, output, costs and employments, low profits, low trade volume, low government revenue and financial crisis not on the two countries but on the entire global economy mainly the developing countries and particularly Pakistan, in general. In the short term may be the trade war reap some fruits but in the larger picture it is lose – lose scenario. On the other hand, Pakistan`s economy is least integrated in the global supply chain and will not suffer much from the US-China trade war in the short term but in the bigger picture there are implications for Pakistan as well because Pakistan has shifted its economic reliance mainly towards China. However, to overcome the recent economic challenges, Pakistan needs to improve its economic outlook by enhancing its economic cooperation with countries having lower trade barriers, higher consumer assurance and potential for supply chain integration by revisiting its trade policy and using Economic Cooperation Organization (ECO) to further advance bilateral and economic relations with GCC countries, Iran, Turkey and Central Asian Republics as well.