

The Implications of the US-China Trade War on Pakistan

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Abstract

This research is aimed to evaluate the implications of the US-China trade war on Pakistan. In the analysis, we have seen in the impacts that there is no major effect of the Sino-US Trade war on Pakistan but is an opportunity to increase its exports which is a headache for Pakistan. The current account deficit and Balance of payment need good improvement in exports of Pakistan. With many other ways that can work, this needs proper attention from the government to sign FTAs with smaller economies and boost cooperation with them. This should level foreign investment in Pakistan so the country's dependence on major economies especially Chinese investment and other loans may be decreased.

Keywords: Implications, Trade, US-China, War, FTAs

INTRODUCTION

It is no big secret that the People's Republic of China lead by its Communist Party is challenging the United States of America for world domination. Both states have armed themselves to the teeth with all modes of warfare may it be traditional as for their weapons in military might, or contemporary as for their economic and technological prowess. While the United States holds the title of being the world's *hegemon*, China is now a rising *revisionist* growing at a very fast pace and spreading its influence globally through its economic might. "When elephants fight, it's the grass that suffers." This is a classic African maxim indicating the horrors of the casualties that superpowers leave when they flex their strength. Countries such as Pakistan should beware of the implications this dispute may cost it in order to prepare itself from being a casualty of war. And when it has prepared itself, it must then find its way to turn this chaos into an opportunity to gain the most out of this contention.

THE ELEPHENTS DISPUTE:

After the two nations re-established relations in 1979, the United States' and China's trade was revamped with its foreign relations following as well. On July 1979, Washington and Beijing agreed to a bilateral trade agreement and shortly after, in early 1980, the two states

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entered into a mutual Most Favoured Nation (MFN) partnership. During the same year when China reformed their economy, their trade with US reached Four Billion US Dollars. Compared to 2017, total trade of Washington's goods with Beijing ballooned to Six Hundred and Thirty Six Billion US Dollars thereby crowning the Asian Giant as Uncle Sam's largest trading partner (Morison, July 30, 2018).

To elaborate the history of US-China Trade War, it began when President Trump, in the first quarter of 2018, imposed additional tariffs on steel and aluminium coming from China entering the United States. Few days after, Trump placed another sanction to Beijing for Intellectual Property Rights causing losses to American Businesses. This new sanction raised import taxes on selected Chinese goods by 25% causing 50 to 60 Billion Dollars in tariff. China retaliated by doing the same tariff increase on American goods such as pork. The exchange of tariff impositions from both sides merited equivalent to harsher measures between the parties leading to what we now know as the US-China Trade War.

Donald Trump, being a businessman that he is, attacked Beijing's economy once more by increasing tariffs amounting to 50 Billion Dollars' worth of Chinese goods. The unrelenting Xi hit back with a proportional response against American goods. China's pronouncement of imposing such tariffs on American exports served as a warning to Washington at the expense of the American labour force and consumers should this exchange of sanctions continue. (Myers, April, 2018). Under the policies promulgated by the World Trade Organization (WTO), a developing country is entitled, to a certain extent, to use non-market practices to beef up their economy. Since China grew to becoming an economic power second only the United States, it is in the developing countries interest to make China subscribe to the same rules and responsibilities as a market economy. Every action by Washington is proportionally responded by Beijing. Every policy pronouncement of Trump merits a proportional counter from the Chinese Communist Party. Reasons behind Trump's actions are based on some intentions which are actual and obvious. The first intention is to force China to open its market for US exports while another intention is to deal with Beijing's strategy – "Made in China 2025" – and curbing their state-backed technology industry.

The US and China are the two biggest economies in the world. The trade war between them would have serious repercussions throughout the world economic spheres. US President Donald Trump accuses China of bad economic practices at the expense of US economy and thus punishes China in the guise of US simply "reimbursing" their losses over the years. China retaliates, thus, trade war happened.

The GRASS AND THE ELEPHENTS:

1.RELATIONSHIP BETWEEN US AND PAKISTAN:

Relationship between Pakistan and US has seen different ups and downs while passing through different stages. Sometimes sweeter than honey while sometime bitter than bitter gourd. It can be said that very less consistency is there in relationship due to different events and clashes and interests. It would be good to analyze this relationship to give a proper view and insight for upcoming discussions in the paper. Some of the major events in history will explain it in a much better way from which both countries are passed till today.

After Pakistan emerged on the world map, Washington expressed openness and a welcoming ambiance to the newly formed country. Then US President Truman expressed his

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congratulations and felicitations through a letter sent to the Pakistani Government on the 14th of August 1947. Truman wrote for Pakistan, "I wish to assure you that the new dominion embarks on its course with the firm friendship and goodwill of the United States of America" (Sattar, 2006). For a new country born with challenges it was a good gesture from a world powerful country. Pakistan's due share in assets was not properly given and difficulties and problems were in almost every sphere to be dealt with in years to come. First and the most challenging thing was to deal with the financial crises which is the result of Pakistan not getting its share in the division of assets. Above this was self-protection against India –a country seven times bigger than Pakistan. With limited resources it was impossible to manage such conditions without others' help. After US President's message, Pakistan's hopes were attached to the USA - one of the strong economies and powers in the world and therefore saw the Americans as an ally in building the Pakistani nation. First in the government's list is infrastructure development and the modernization of its armed forces. However financial support was a foremost problem of which there were no better candidates for seeking help other than Washington. It is, however, not clearly recorded when the Pakistani government officially sought military aid from Washington. (Khan, 1963).

In October 1947 Pakistan approached USA, Mir Laik, *an emissary*, was sent to seek loan of 2 Million US Dollars for economic development and defence expenditure as a need of time and to contribute to an independent position in world order. This was not granted by the US due to Pakistan's less importance and USA's low interest in South Asia (Hasnat, 2011). Initially Pakistan was discouraged by this response but South Asia's importance was not yet properly understood by the USA. Then, a challenge for Pakistan was to convince the US of its importance in the region by showing them the similarities between the two countries' vision. Nawabzada Liaquat Ali Khan, the first Prime Minister did his best in this task by convincing them about US and Pakistan's shared values such as commitment to democracy among other things. Second was to make them understand about the strategic location of Pakistan in connection with the oil rich region of Middle East. This time half of the task was accomplished and Pakistan's importance was recognized without agreeing to any economic and military assistance. After continuous hesitation, finally, in 1951, the US agreed to provide arms worth 10 million US dollars with technical and economic development. Beside this, 15 Million US Dollars were provided for wheat purchase. This provision was under the Four Points program of the US for Pakistan. Still Pakistan continued its struggle to further strengthen its ties with the US.

In the collection of events, another important event came when Pakistan created its image as a peace-loving country in the eyes of the world, particularly with the US. Pakistan pushed for the peaceful relationship of China and Japan, North Korea and Japan, and South Korea and China. This was praised by New York Times and Pakistan was declared as a true friend of US (Editorial, *America's One Sure Friend In South Asia*, 14 September 1951). This image made Pakistan an ally of the USA. These alliances were to deter India which was a continuous threat for Pakistan's security. As Pakistan's importance was gradually recognized in Washington it was easy to make defence and economic treaties and establish stronger relations than the earlier days of Pakistan. Some of the important alliances between US and Pakistan further elaborate relations between the two countries.

First alliance between Pakistan and US is the Mutual Defence Agreement 1954 which was

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ratified on May 19, 1954. In this agreement USA agreed to provide defence equipment to Pakistan for the maintenance of its security and self-defence. This was under US legislations of The Act of Mutual Defence Assistance 1949 and Act of 1949 Relating to the Defence of the Free World(khan, 1964).

Another important alliance was in the shape of an International organization: South East Asian Treaty Organization (SEATO).Pakistan was invited to join the discussion of the Manila Conference. PM Muhammad Ali Bora agreed to join only discussion without agreeing to any terms and conditions. Later foreign minister Zafarullah Khan signed the agreement despite opposition from within the cabinet it was approved. But in 1965 and 1971,armed conflict between Pakistan and India were not considered as Indian aggression and military intervention in Pakistan by invoking this treaty did not materialize. This disappointed Pakistan and withdrew from the organization in 1972.

Third and another important alliance is Baghdad Pact which was not initially joined by US but was closely associated with it since its foundation. After Iraq withdrew from the organization, it was named CENTO (Central Treaty Organization) which US also joined later. While relationship between two countries was on peak,

PM Husain ShahedSuhrawardy signed a deal with US President Eisenhower for the establishment of a secret intelligence base at Badabeer near Peshawar with exclusive authorization for US aircrafts to station in the Peshawar airbase. 5 (From The U-2 To The P-3: The US Pakistan Relationship published in newleftreview.org in 01 October 1986) The reason why Pakistan allowed America was to get early delivery of B-57 bombers, increasing its importance in eye of US, economic assistance, and restraining US from selling arms to India. Nevertheless, for US it was more important to keep eye on USSR and China. This shows a sense of good understanding and trust between two countries which led them to more agreements and events.

After SEATO and CENTO another important agreement took place between the two countries is the Bilateral Defence Cooperation Agreement of 1959. In this agreement the US furthermore solidified its support for developing Pakistan's defensive capabilities. In Article 1 of the agreement, it is stated that US regards as vital to its national interests and word peace the preservation of the independence and territorial integrity of Pakistan. In case of aggression against Pakistan, the US will take appropriate action, including the use of armed forces, as may be mutually agreed upon and as envisaged in the Joint Resolution to promote peace and stability in the Middle East, in order to assist Pakistan at its request. In article 2 it was pledged by the US to assist Pakistan's government in the preservation of its national independence and integrity and in the effective promotion of economic development (Treaties And International Agreements, 1959). After alliances and agreements there was a sudden turn in US policy which started a new era of their relationship.

However, the U.S. suspension of military assistance during the 1965 Indo-Pakistan war generated a widespread feeling in Pakistan that the United States was not keeping up with its promises as an ally. Even though the United States ceased military assistance to both parties of the dispute, the suspension of aid affected Pakistan worse. For Pakistan, Washington has lost all credibility in the war of 1965 and then 1971 (Umbreen Javaid Imrana, 2014). This turn in the relationship became more unpleasant when US sanctioned Pakistan in 1990 under the Pressler Amendment for nuclear proliferation. The story continued to US Ambassador

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Nicholas Platt warning Pakistan in 1992 for being included in state sponsors of terrorism (Timeline: History of US-Pakistan Relation, July 4, 2012).

India's decision to conduct nuclear tests May of 1998 and Pakistan's proportionate response set brought back US' interest over the region evident in US President Clinton's second term. A state visit of the US President for the South Asian Region in 1998 was laid on the table and under the Glenn Amendment, sanctions restricted the provision of credits, military sales, economic assistance, and loans to the government. (Ref 9 Historical perspective of Pakistan USA relations; Lessons for Pakistan published in South Journal for South Asian Studies January 2014)

After 9/11 while America once again made Pakistan her important strategic ally and started putting American boots on foreign soils to eradicate militancy. Pakistan's soil was allowed as base against Al Qaeda and Taliban. This permission was given from Pakistan when threatened of "bombing it into stone age" if not joined against Al Qaeda. This also resulted in lifting of sanctions from Pakistan and aids in upcoming years. These claims are confessed by President Parviz Musharraf. Later on in 2003, US officially granted a 1 Billion US Dollar loan to Pakistan as gesture of goodwill and appreciation for its cooperation. In the period of War on Terror from 2001 US has given Pakistan 20 Billion Dollar and in the wake of Osama Bin Laden raid US gave 800 Million Dollar aid to Pakistan. Lastly during Trump Administration Pakistan was accused of deceiving US and was demanded to "Do More" but Pakistan reacted strongly and said "No More" (Malik, 2017). This journey is stopped by US once again appreciating Pakistan for its great role as a facilitator in Afghan Peace process initiated by Trump Administration.

SINO-Pakistan Relationship:

Pakistan and China's friendship is said to be "higher than the heights of Himalayas, deeper than the depth of the Arabian sea, sweeter than honey and stronger than steel" Prime Minister Nawaz Sharif (Editorial, China-Pakistan friendship 'sweeter than honey', Nawaz Sharif, 2013). In seven decades of relationship many developments can be seen to reach today's mega project contracts between two countries by mutual agreement. This journey of relationship takes one back to the historical decade of 1940s where Pakistan recognized the People's Republic of China in 1948. Pakistan is the third non-communist country and first Muslim country to recognize the newly established Communist China after the Chinese revolution. Interestingly, despite its close ties with the United States and criticism on communism. Some major events in relations can explore the importance of both countries for each other which will help us to suggest a foreign policy for Pakistan in the time of rising trade tensions between the two major powers. To further understand the depth of uniqueness some of the major events are as follows:

On January 4, 1950, Islamabad sent a high-level delegation for an official state visit to China. After recognition this was first visit while in increasing cooperation and development with US it was not an easy decision. This led both countries to establish formal diplomatic relations on May 21, 1951. First visit from China was when Vice President Song Ching Ling visited Pakistan which further strengthen ties for future relationship. The exchange of delegations continues till the visit of Pakistan's Prime Minister Husain Shaheed Suhrawardy which was a high-level visit from Pakistan. In the decade of 1960 Foreign Minister Zulfikar Ali Bhutto made a historic visit to China (Awan, 2020). Every visit brought both countries closer to each

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other which can be seen in the conclusion of border agreement.

In 1963, the Boundary Agreement between China and Pakistan was concluded peacefully. While the boundaries of both countries are disputed with their remaining neighbours. Pakistan has had neither disparity of purview nor border conflict with China. This shows a good gesture from both the countries while some time a great compromise is seen from Chinese leadership. Specially in case of Pakistan's stance against Communism in alliances with US.

However, Pakistan was tactless in anti-communist narrative. In May of 1954, Prime Minister Bora, while speaking in a conference in Colombo, criticised communism by calling it a big potential danger to democracy. This hurt Chinese Prime Minister Zhou Enlai and told it to departing Pakistani Ambassador that he regarded Pakistan as a friend. With this he said that we fully understand Pakistan's circumstances (Brands, 1975). After meeting in Bandung Conference both PMs in a friendly meeting discussed the matters of mutual relationship. Zhou publicly announced that Pakistan was not against China and any aggression against China under SEATO, Pakistan would not be involved. As result the issues of misunderstandings were cleared and way for future relationship was tightened.

The journey of good relationship was directed to friendship when Pakistan defied US and UK support for India against China and supported Chinese stance in the matter of border dispute. Pakistan breached American sanctions by establishing air links with China. In 1964, Pakistan International Airlines (PIA) began offering flights to mainland China making Pakistan the first non-communist country whose commercial flights are authorized en route to China. This signalled the entering into a new era of linkages between the two countries. Pakistan was the window for China to interact with the rest of world. This opposed America's policy of containment and isolation. For transiting different countries of Middle East, Africa, and Europe they transited through Pakistan. This provided Islamabad with opportunities to achieve closer relations with the said countries. This was Pakistan defending Chinese interests in multilateral fora. These things continued to deepen relationship between two countries. Furthermore, in 1964, Pakistan opposed a move to declare opposition to "the Chinese threat" before the Commonwealth Summit.

Today, this traditional and strategic relationship has been entered into bilateral economic cooperation. In search of high and sustainable economic growth, policy makers are designing different development projects to accelerate economic development; the China Pakistan Economic Corridor (CPEC) is at the centre of this. The basis of CPEC started way back in 1990 when Bush administration started a military campaign against Iraq and Afghanistan in response of 9/11 terrorist attack. After the being used in the war in Afghanistan, USA ditched Pakistan without help in the war on terror and succumbed Pakistan into many economic difficulties. Furthermore in 1990, when Pakistan and China agreed for a missile and nuclear program, USA sanctioned both parties. During that situation, Beijing recollects its diplomatic relations with Islamabad and crafted new policies to suit this new regional and strategic environment leading to the formulation of a geopolitical and economic partnership which we now know as CPEC (Ramay, 2016).

China Pakistan Economic Corridor (CPEC) is a bilateral cooperative initiative, offering 3,000 km network of highways, railroads, oil pipeline and links of optical fibres amounting to Fifty-One Billion US Dollars in order to connect Kashgar, China's north-western autonomous region

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of Xinjiang, to Gwadar Port in Pakistan (Ahmad Saad, 2020).

CPEC is a life-time development opportunity for Pakistan. The government and the people of both countries believe that the smooth implementation and sustainable operation of CPEC projects will increase trade and energy cooperation between China and Pakistan and it will benefit over three billion people of China, South Asia and Middle East.

IMPLICATIONS FOR THE GRASS:

Trade crises between US and China, if increased can create a new environment not only for Pakistan but for everyone directly or indirectly connected with world trade. This can harm some countries while some can get benefit of it through proper management. As of writing, the trade war created a negative ambience for the global market. Transnational corporations have their stock prices falling down because of international uncertainty over which side are they going to put their eggs in. With the major economic powers receiving a bulk of these repercussions, developing countries pay an even more heavier toll specially those who do business with either Washington or Beijing.

For Pakistan, not being a major player in the global economy, the current trade war is likely to have minute repercussions. This provides an opportunity to increase its outreach through enhanced integration in the global trade market, through revised and improved economic policies. This can be achieved through Free Trade Agreements (FTAs) which lowers economic barriers such as tariffs to a minimum, which, in turn, can give in demand Pakistani products special preferences. FTAs are better than single market which is due to its safety and less risk (Pakistan unlikely to suffer from the US-China trade war in short term export, 2018).

Another industry to caution is Pakistan's exports of steel, iron, and aluminium. Because of the surplus in its production, prices of these goods are expected to lower. It is logical then to predict that the prices of goods using these materials as components will decrease too. Unfortunately, the trade war has crippled the purchasing powers of consumers around the globe – Pakistan included. This situation merits caution for CPEC predicting adjustments in the original completion dates of projects to a later date. This means that the already crippled economy of Pakistan will have to wait further. (Nisar, 2018).

Developing countries are at the receiving end of this trade war and will be experiencing what is known as major "economic shocks." These shocks will hamper the progress already placed for the realization of the United Nations' Sustainable Development Goals for 2030. Furthermore, economic growths of these developing countries have been cancelled out by the trade-war curving their development trend and forecasts. (Salik M. A., 2018).

On a positive note, Pakistan is less likely to be negatively affected by the trade war. This is thanks to Pakistan's cautious interaction with the global supply chain. Given that Pakistan is not deeply rooted in the world economy, its patrimony is not dependent in global trade making it less vulnerable in the trade war. However, this also means that Pakistan will neither gain nor lose significantly in this situation. This provides an opportunity for Pakistan to entice Chinese businesses to invest in Pakistan as a strategy to evade Washington's retaliatory sanctions and benefit from Islamabad's considerably smaller labor compensation rates. Legislators in the Parliament should closely follow the developments in the trade war to appropriate commensurate actions to take advantage over the situation. (Editorial, The China-US trade war, 2018).

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Trade wars breed uncertainty and it is detrimental for investments. Given that the two most powerful economies are the parties to this trade war, it is even more detrimental for the global supply chains per se. The uncertain developments cause businesses to hold on to their chips closely to avoid miss-investment and this delayed investment causes much needing states to suffer. By analyzing the current trend, it can be deduced that the American Economy has more to lose because China's Economy is intertwined with a majority of economies in the world, Washington included. Meaning, making Chinese economy suffer also means suffering for other economies where China's roots are embedded which happens to include the United States as one of its biggest trade partners. As for the producers and consumers across the globe, supplies of necessary materials are jeopardized by the trade-war making production run differently than its usual schedule. Therefore, consumers across the globe who subscribe to the integrated supply chain network will be facing the consequences of this trade war.

RECOMMENDATIONS:

While keeping in view the above possible implications of US-China Trade war, this paper recommends some major recommendations which can help Pakistan in better management of the situation and making it an opportunity for profitable gain from it. This is possible after Pakistan capitalization in the situation.

1. Pakistan should initiate Foreign Trade Agreements (FTA) and partner with other countries. Signing FTAs to supply surplus steel and aluminum to the developing countries can help Pakistan benefit more in the crucial situation of Balance of Trade and Balance of Payment. FTAs, the lowest form of economic partnership, is preferred than engaging in a Single Market in conditions of shocks and insecurity of trade.
2. In the situation of uncertainty and shocks these agreements will control 'economic shocks' of developing countries. Beside this partnership with China should persuade and appease the Chinese government to make Pakistan as a new business destination. Also the FTAs should work as an alternate to Pakistan dependence on China in its economic and business sector. This dependence sometime compels to compromises which can lead to political influence in future.
3. Pakistan should be careful of exceeding from the limited global economic interaction specially with China. Nevertheless, creating safeguards in law from the parliament is a need of time. The Government of Pakistan through its Ministry of Trade and Commerce should strengthen laws related to foreign investment and should strictly implement these laws.

Conclusion:

To sum up, every event needs proper management to get benefit from. Though we have seen in the impacts that there is no major effect of Sino-US Trade war on Pakistan but is an opportunity to increase its exports which is a headache for Pakistan. Current Account deficit and Balance of payment needs good improvement in exports of Pakistan. With many other ways which can work, this needs proper attention from the government to sign FTAs with smaller economies and boost cooperation with them. This should level foreign investment in Pakistan so country's dependence on major economies especially Chinese investment and other loans may be decreased. In other words economic independence leads to political

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independence which every country is looking for to avoid dictation from others and exercise its full sovereignty in the world.

Lastly, export needs development of industries, agricultural sector of an agrarian based economy, empowering them to boost productivity and give surplus which can be exported, and the moment of Trade war is properly utilized.

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