

# USA China Trade War Impact on Pakistan's Trade Dynamics

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## **Abstract**

This study examines how the trade conflict between the US and China has influenced Pakistan's trade performance in comparison to India and Bangladesh. Utilizing Heckscher-Ohlin Trade theory and data sourced from WITS and Trade Map, we evaluate the changes in exports from 2017 to 2019. The tariffs imposed by the US on Chinese products led to a notable decline in China's exports to the US, while India and Bangladesh saw an increase in their exports to occupy that space. Conversely, Pakistan experienced only a slight drop in its exports, indicating its ongoing structural economic issues and limited ability to adapt. The research underscores the importance for Pakistan to diversify its export base and improve trade competitiveness to effectively navigate potential future trade conflicts

## **Introduction**

In rising agitation between the US and China, Pakistan seeks to maintain good relationships with both countries. The government of Pakistan clarified that our future is bound to China regarding the economic development of the country. He further stressed that we are lucky to have

such friends who always extended support not only for the economy of Pakistan but also stood with us in every international challenge which Pakistan is being faced. On the other hand, the US remained strategically and the largest source of foreign aid by the provision of millions of dollars in military and civilian support against the prolonged war on terror in the region.

Simultaneously, two challenges emerged in recent periods. Taliban and US peace accord, pinpointing to an end to US engagement in the conflict which impacted seriously on the trade relations of said countries. Meanwhile, China has increased its investment in Pakistan. In the perspective of defense and security, China always wanted good relation with Pakistan and consequently different investments in military exercises to combat the international security challenges. Historically, China's economic working is appreciable on the global belt and road initiative (BRI) that is wanted to plan to open the new trade corridors in central and south Asia. The estimates crossed about 30 billion dollars on the basis of bilateral cooperation as a part of China, Pakistan economic corridors (CPEC) which improved Pakistan's infrastructure plan. In addition to this, China has worked to remove the grave problem of energy crisis in the shape of initiating the different project.

US has criticized the investments of China related to CPEC by blaming that China is only to earn its own economic targets by ignoring foreign countries' concerns, and it is nothing rather than debt trap. China and Pakistan rejected the baseless criticism on the economic, political and social cooperation of both countries. The incumbent government of Pakistan tries on every forum to rebuild the relationship with the US to deescalate the ongoing tension between the two powers.

**Hypothesis 1 (H1)** The imposition of US tariffs on Chinese goods significantly reduces China's exports to the United States.

**Hypothesis 2 (H2)** The US-China trade war negatively impacts Pakistan's exports to the United States, resulting in a measurable decline.

**Hypothesis 3 (H3)** The US-China trade war creates an opportunity for India to increase its exports to the United States.

**Hypothesis 4 (H4)** The overall trade position of Pakistan deteriorates relative to India and Bangladesh due to the US-China trade war.

**Hypothesis 5 (H5)** There is a significant difference in the export performance of Pakistan compared to India and Bangladesh during the US-China trade war.

Heckscher-Ohlin trade theory (H-O Theory) is re-examined for the nature of China's foreign trade, i.e. the relative capital intensity (capital-labor ratio) of export and competitive import goods, by adopting so-called input-output (IO) techniques. Eleven countries/regions, mainly based on their shares in China's total trade volume, are selected to disclose China's comparative advantage –the basis on which China participates in international trade according to H-O Theory. We find that, in accordance with classical economics, China resorts to foreign trade in order to economize its capital and dispose of its surplus labor. In other words, H-O Theory finds support in the data.

The difference-in-difference methodology used to obtain the coefficients of each country to estimate the change in exports to the US from China, India, Bangladesh, and Pakistan. The empirical results indicate that due to the imposition of US tariffs, China's exports to the US reduced by 39%, whereas Pakistan's exports to the US lowered by 3%. India and Bangladesh, on the other hand, gains from the trade war with India's exports increased by 39% and Bangladesh's

exports increased by 50%. Therefore, it can conclude that the US-China trade war does not bring positivity to overall Pakistan's trade position.

## **Literature Reviews**

Muhammad Ali Baig (2023) According to the conventional wisdom, trade is not a zero-sum game, but a positive sum game. Same is the case of US-China trade relationship. Both countries developed decade's long trade relations on the basis of mutual economic interests. Both countries United States and China, in past have been each other's extensive partners, on economic trading and political cooperation. Continuous Chinese development and high growth rate, with the largest trade surplus challenged United States supremacy in the world. Therefore, United States made China liable for its unfair trade practices and initiated trade war. This study provides an assessment of US-China trade war and its regional and global implications including its economic implications for Pakistan. In this paper, American role in Chinese Economic development is also highlighted. This paper contends that full understanding of trade war requires close attention to the importance of power competition among two global powers.

Nawaz, A., Akhlaq, S., & Bilal, A. (2023) China's remarkable economic ascent from a once fragile economy to the position of the world's second-largest economic powerhouse has fueled apprehension in the United States. The advent of President Trump in 2017, with his assertive governing style, marked a turning point. Fueled by concerns over longstanding issues such as alleged unfair trade practices and intellectual property theft, the U.S. initiated a trade war against China through the imposition of tariffs on Chinese products. This paper aims to scrutinize the grounds and allegations put forth by the U.S. against China. Through a qualitative analysis, it offers a concise overview of the historical context of Sino-U.S. trade relations, complemented by an exploration of the rise of China. Additionally, the study delves into the repercussions of the trade

war on Pakistan and examines the Sino-U.S. rivalry through the lens of a "Resumed Cold War" perspective. By critically examining the reasons behind the U.S. stance on China, this paper seeks to contribute to a nuanced understanding of the complexities surrounding the Sino-U.S. trade dynamics and their broader geopolitical implications.

Ahmad, A., & Gul, A. R. (2024). 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.

This article aims to examine the China-US strategic competition and its impacts on agricultural cooperation between the two powers. Over the past two decades, China's comprehensive influence across the world has challenged the US hegemony that it has held for three decades. The US perceives China's persistent economic growth and diplomatic influence as the main challenge to its supremacy in the world. The strategic competition between the two powers has also resulted in a trade war in recent years. China has been one of the top trading partners for the past two decades. Since, the early 2000s, China has been one of the main countries for the US for its agriculture exports. In the same way, the US remains to be an important destination for Chinese agricultural exports. The China-US strategic game not only caused a consequential distraction to the agricultural trade, but it also had direct negative impacts on the economies of the two countries. This article finds that agriculture is a key area

of China-US trade relations and that the strategic competition between the two powers has direct implications for the agricultural sector. The findings of this research also revealed that the US-China trade war has hindered agriculture cooperation, and has implications for Ukraine and Pakistan as well.

### **Central Argument**

The US-China trade war serves as a catalyst for significant shifts in global trade dynamics, with profound implications for regional economies such as Pakistan, India, and Bangladesh. This study argues that while China suffers substantial export losses due to US tariffs, countries like India and Bangladesh have strategically leveraged the trade war to enhance their export performance to the United States. In contrast, Pakistan finds itself at a disadvantage, as it does not benefit from the same level of export growth. This divergence highlights the uneven effects of geopolitical conflicts on trade relationships and raises questions about Pakistan's strategic positioning in the global market.

1. ***Impact on China:*** The study's findings indicate that China's exports to the US decreased by 39% due to tariffs. This reduction reflects the vulnerability of China's trade-dependent economy and underscores how aggressive trade policies can lead to substantial losses for major exporters.
2. ***Pakistan's Trade Position:*** The relatively modest decline of 3% in Pakistan's exports suggests that the country is not effectively capitalizing on the trade war in the same way as its neighbors. This raises critical questions about Pakistan's trade strategies, competitiveness, and ability to adapt to changing global trade dynamics.

### **Counterarguments**

1. ***Structural Limitations***: One could argue that Pakistan's export challenges are rooted in deeper structural issues such as limited diversification of export products, reliance on a narrow range of markets, and ongoing economic instability, rather than the trade war itself.
2. ***Temporary Effects***: Critics may contend that the trade war's impact is temporary and that China, India, and Bangladesh will eventually revert to their previous trade patterns once tensions ease. Thus, the observed increases in Indian and Bangladeshi exports may not represent a sustainable trend.

## **Conclusion**

The debate surrounding the US-China trade war and its implications for regional economies reveals a complex interplay of opportunities and challenges. While China faces significant setbacks, India and Bangladesh demonstrate that geopolitical conflicts can yield opportunities for growth. Conversely, Pakistan's inability to capitalize on these shifts raises important questions about its trade strategies and future prospects. The findings emphasize the need for Pakistan to reevaluate its economic policies and develop strategies that enhance its competitiveness in the evolving global trade landscape.

## **Analysis**

**Role of Pakistan and the US in Each Other's Exports and Imports** The following table depicts the role of bilateral trade between the US and Pakistan. It shows that the percent share of Pakistan in US's exports was 16.27 in 2017 which increased to 17 percent in 2019, and percent share of Pakistan's in US's imports was 4.95 in 2017 which also increased and reached at 5.21 percent in 2019 whereas, percent share of US in Pakistan's exports was 0.18 percent which has decreased in 2019 and reached at 0.16 percent, and percent

share of US in Pakistan's imports was 0.16 in 2017 and has remained same in 2019. This up and down in percent share has noted due to the US and China trade war.

**Table 1 Role of Pakistan and the US in Each Other's Exports and Imports**

<b>Year %</b>	<b>Share of Pakistan in US's Exports</b>	<b>% Share of Pakistan in US's Imports</b>	<b>Imports % Share of US in Pakistan's Exports</b>	<b>% Share of the US in Pakistan's Imports</b>
2017	16.27	4.95	0.18	0.16
2018	16.09	4.90	0.17	0.15
2019	17.00	5.21	0.16	0.16

Source: World Integrated Trade Solution (WITS)

### **Global trade profile of Pakistan and US**

The following table shows the position of the share of Pakistan and USA in world trade of last three years (2017-2019). In 2017, Pakistan exports share was 0.125 which almost remain the same in 2019, imports share decreased from 0.323 to 0.263 in 2019, and total trade also decreased from 0.225 to 0.196 in 2019 whereas, the US share of trade in world trade depicts the same position from 2017 to 2019.

**Table 2. Role of Pakistan and the US in Each Other's Exports and Imports (2017-2019)**

Pakistan				US		
Years	Exports	Import	Total Trade	Exports	Imports	Total Trade
2017	0.125	0.323	0.225	8.81	13.52	11.18
2018	0.123	0.306	0.125	8.63	13.27	10.97
2019	0.127	0.263	0.196	8.79	13.48	11.16

### Bilateral trade position of Pakistan and China

The second phase of the Pakistan and China Free Trade Agreement has implemented, and it is a significant achievement for both countries, but more particularly in Pakistan. Now, Pakistan can increase its market access in the Chinese market like ASEAN. Under this phase, China included 313 more products of Pakistan. However, in the past, the bilateral trade has remained in favour of China, but now it is expected that due to the second phase of PCFTA, the trade deficit of Pakistan will decrease.

**Table 3 Bilateral Trade Position between Pakistan and China US Dollar Thousand**

years	Exports	Imports	Balance of Trade	Total Export of pakistan	%share in total Exports	Total import of Pakistan	% Share in total Imports
2017	1,510,410	15,404,325	-13,893.915	21,911,598	6.89	57,518,651	26.78
2018	1,829,435	14,599,749	-12,770,314	23,778,621	7.69	60,391,133	24.17

2019	2,042,893	12,423,997	-10,381,104	23,818,817	8.58	50,134,812	24.78
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Source: Trade Map

## Result

Results & Discussion presents the difference-in-difference coefficients for US exports by China, Pakistan, India and Bangladesh. U.S. tariffs against China lower Chinese exports of tariffed goods by 39%. Pakistan's exports to US lowered by 3%, whereas exports of India increased by 39% and Bangladesh by 50%.

## Conclusion

As the United States of America and the People's Republic of China are good friends of the Pakistan since its existence. But, due to recent trade war between USA and PRC, Pakistan trade has also affected. It has been empirically witnessed that due to U.S. tariffs against China lower Chinese exports of tariffed goods by 39%. Pakistan's exports to US lowered by 3%, whereas exports of India increased by 39% and Bangladesh by 50%. Therefore, this war has badly affected Pakistan trade with the US.

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