

US-China Trade War and Implications for BRI

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Abstract

Despite the fact that the United States (US) and China have been vehemently opposing each other over the past few decades, they have had established deep economic ties. However, after Donald Trump assumed presidency in January 2017, a somewhat more hostile trade war with China began with devastating consequences on the global economy. Through the lens of Realism, this paper critically analyses the phenomenon of the US-China trade war and its effects on global economy. It also highlights how this trade war adversely affects China's Belt and Road Initiative (BRI). It also chalks out policy recommendations for both the US and China to ensure a smooth and steady rise of their economies.

Keywords: US-China Trade War, Belt and Road Initiative (BRI), Global Economy, Realism, Sino-US Relations.

Introduction

At present, US-China relations are fast deteriorating in the political as well as economic domain. In the past few decades, the emergence of China as a global economic power has been viewed critically by the US. This ambience of mistrust amidst both states is strongly rooted in the fact that both the states have totally different political and economic systems. On one hand, China's economic rise has allowed it to become a key economic partner for the US, and both the economies have become heavily interdependent on each other. On the other hand, the US, under the Trump administration, have embarked on a "tit-for-tat" hostile trade policies with the world's second largest economy.¹

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¹ Ryan Hass, "Tit-for-tat Cycle with China will Hurt US Economy," *The Brookings Institute*, February 5, 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/02/05/tit-for-tat-cycle-with-china-will-hurt-u-s-economy/>

Since 2017, the US frequently exercised unilateral trade actions to exert pressure on China, which intensified trade frictions between the two states in 2018. The US imposed three rounds of tariffs on the Chinese products on the grounds that Beijing has been pursuing unfair business practices. Furthermore, the US sued China in the World Trade Organisation (WTO) on intellectual property issues, and on limited Chinese businesses to pursue mergers as well as acquisitions of the US businesses. The escalating trade friction between the two states, commonly referred to as the “trade war,” threatens global economy gravely.

In the recent years, the strategic competition between the US and China has significantly intensified. Especially, after China launched its “Belt and Road Initiative” (BRI), the strategic rivalry between the two states reached its zenith, as this project directly affected the US primacy in the region. Furthermore, while the US was focused upon eradicating terrorism by launching multiple wars and military operations in: Afghanistan (2001), Iraq (2003) and various other locations in the Middle East namely against the Islamic State of Iraq and Syria (ISIS) and al-Qaeda. While pursuing the wars overseas, Washington’s global influence and supremacy began to wane. This created a vacuum which China filled and increased its influence across the globe. In addition, under President Xi’s leadership, the Chinese foreign policy became energy-and security-oriented. The ambitious BRI, which aims to connect three major regions of the world — Asia, Europe and Africa — is a vital component of President Xi’s grand geo-strategic and geo-economic policy. According to rough estimates, almost US\$200 billion has been invested in BRI. Also, according to Morgan Stanley, China’s overall investment in the BRI might reach an astounding US\$1.2–1.3 trillion by 2027.²

Such outstanding statistics with the overwhelming economic and political incentives have been challenging the US interests across the world, ensuing a cycle where both actors are navigating to ensure their external interests remain intact. Therefore, to assess the shift within the international order, no other relationship will be this important. With its booming economy, ever expanding regional and global influence, and

² Andrew Chatzky and James McBride, “China’s Massive Belt and Road Initiative,” *Congressional Research Report*, <https://www.cfr.org/backgrounder/chinas-massive-belt-and-road-initiative>

sustained military modernisation, China is well-poised to take the much-coveted throne of the “global hegemon” from the US.

Under Trump administration, the strategic rivalry has become more prominent, especially in relation to China’s military modernisation and diplomatic attempts to alter the existing global order according to its needs. The US engagements with the countries in Asia-Pacific are steered to contain China and to retain the former’s hegemonic presence. This tug of war for power has also generated potential threats which might call for armed confrontation over Taiwan and other peripheral lands. Provoking a “China Threat Syndrome” under the US perspective, considering that Chinese engagements with the US are only “steered to keep its enemy close whilst silently preparing itself for war against the US and its allies” has also led to a trade war between Beijing and Washington.

From the Western perspective, Beijing has opted for a more competitive stance vis-à-vis the US to strengthen its national power and geopolitical influence with the aim to wear down America’s hegemonic power. On the positive side, this competition is creating new incentives in the domains of cyber and space security. Nonetheless, the divergent strategic and economic policies of both states, the US and China, may not only cause regional and global insecurities, but lead to an unwanted risk of an arms race. This paper attempts to critically analyse the US-China trade wars through the lens of Realism. How it affects global economy? Furthermore, how the trade war affects China’s all-important BRI? Whether the challenges posed to BRI particularly and global economy generally by the hostile Beijing-Washington ties are long or short term? In addition, how the US and China will navigate their economies to avoid succumbing to the trade war?

US-China Competition from the Lens of Realism

The Realist school of thought predominately focuses over the anarchic nature of international system. The seeds of anarchy that already prevail within the system call for the states to behave in a particular manner:

- a) To constantly seek and enhance power.
- b) Any fluctuations in the balance of power compel the states to formulate alliances and ensue arms race.

- c) The ambitions to gain more power in the existing power vacuums, even if it dismantles security of the other states.
- d) A state's international standing — its relative power within the international arena outlines its interests and extent of its geopolitical ambitions.³
- e) The offense-defence balance in military technology spirals and intensifies the security dilemma such as arms race and leads to pre-emptive measures.
- f) To acquire similar capacities to counter any existing threats generated by the competitors.

The existing literature supports the notion that China's persistent economic growth, since three decades, has been viewed with fears and suspicion in strategic quarters at Washington D.C. The most objectionable aspect is China's growing ambitions towards development of a multi-polar world. President Xi Jinping's proposal for a "new type of great power relations" (*xinxingdaguoguanxi*), dreams of a world order where China and the US share global leadership as "equals" while breaking free from the historical pattern of "inevitable confrontation between the rising and established powers."⁴ From President Xi's perspective, there is room for coexistence and cooperation in the Asian region as long as they treat each other as equals. According to the realists, Beijing's assertiveness in the geopolitics across its shores is expanded due to the increase in its relative power. Robert Gilpin maintains that a strong correlation persists between a state's national interests and power — elucidating that, "the Realist law of uneven growth implies that as the power of a group or state increases, that group or state will be tempted to try to increase its control over the environment." Therefore, to strengthen its national security, China will expand the scope of its "political, economic, and territorial control," and

³ Colin Flint and Zhang Xiaotong, "Historical-Geopolitical Contexts and the Transformation of Chinese Foreign Policy," *The Chinese Journal of International Politics*, vol. 12, Issue no. 3 (Autumn 2019): 295-331, <https://doi.org/10.1093/cjip/poz011>

⁴ Randall Shweller, "Opposite but Compatible Nationalism: A Neo-Classical Realist Approach to the Future of US-China Relationship," *The Chinese Journal of International Politics*, vol no.11, issue no.1 (Spring 2018): 23-48, <https://doi.org/10.1093/cjip/poy003>

will attempt to change the international system under the prism of its own interests.⁵

The three major offshoots of realism — classical, structuralism and neorealism — predict three scenarios for the on-going Sino-US strategic rivalry:

- a) China would engage in a military conflict with the US;
- b) Both actors would cooperate at their best;
- c) China would maximise its advantages under the existing US hegemonic reign until it is poised to create its own international order.

According to John Mearsheimer, offensive realism predicts that a peaceful rise of China is far-fetched — higher chances of escalated strategic competition persists between the two actors. In his opinion, China will acquire regional hegemony in the Asian region and the US will become a less important player.

Other notions support that with the help of BRI, China aims to establish its staunch foothold in the Indian and the Pacific Oceans — with the drive to secure pivotal sea routes and ensuring safe energy supply for its booming industries. Therefore, the resource diplomacy has been a central facet of China's foreign policy. President Xi's innovative economic outlook has allowed China to build its exclusive niche in the Middle East, Central and South Asia, Europe and Africa. For instance, China's BRI interests coincides with the national development plans of the Gulf States, such as "Saudi Arabia's Vision 2030," Kazakhstan's 'Vision 2050,' and "Qatar's National Vision 2030."

Another prominent notion supports how the US has been pushing India forward to counter China's rise in the region. This can be widely supported under the neo-realism, that in order to maintain its influence in the international system it will form a balancing coalition and alliances with the regional states to counter China. America's strong ties with Japan and South Korea are another nod to the theory. However, this factor has its own repercussions as it sways the strategic equilibrium of the region in India's

⁵ Fareed Zakaria, *From Wealth to Power: The Unusual Origins of America's World Role* (Princeton: Princeton University Press, 1998), 20.

favour — especially in the context of its traditional rivalry with Pakistan. For instance, the signing of “Logistics Exchange Memorandum of Agreement” (LEMOA)⁶ between India and the US indicates the intention to undermine the Chinese influence in the Indian and Pacific Oceans while hitting at the national security of Pakistan, archrival of India. The signing of “Communications Compatibility and Security Agreement” (COMCASA) will further assist India “to access the advanced defence systems and enabling her to optimally utilise the existing US-origin platforms.”⁷ In addition, to strengthen maritime cooperation within the Indian Ocean, both states agreed to start exchanges between the “US Naval Forces Central Command (NAVCENT)” and the “Indian Navy.”⁸ Such acts further erodes the stability of the region beyond repairable measures. On the other end, Sino-Indian relations remain strained due to conflicting interests in the Indian and Pacific Ocean, though both states enjoy strong economic bonds. India considers BRI as a Chinese instrument to dominate in the global arena. From New Delhi’s perspective, China’s strong ties with Pakistan has been a key source of resentment towards the progress of CPEC initiative.

US-China Economic Competition

In the context of ongoing US-China trade war, one of the notions addresses the continued economic stability of China due to the BRI project. However, the pursuit of hard power competition between the two will adversely affect Chinese economy along with its partners. Therefore, the stability of Sino-US relationship appears to be critical for BRI’s long term success. Other prominent Western perception asserts that the imposed tariffs on the Chinese goods and services has been a critical facet to pressure Beijing into abandoning its “unfair” business practices. The Trump administration alleges that China has been covertly stealing “intellectual property secrets

⁶ Rupakjyoti Borah, “5 Reasons Why India Agreed to A Logistic Agreements with the United States,” *The Diplomat*, May 6, 2016, <https://thediplomat.com/2016/05/5-reasons-why-india-agreed-to-a-logistics-agreement-with-the-united-states/>

⁷ Sonia Naz, “Indo-US Communications Compatibility and Security Agreement: Implications for Pakistan,” *Daily Times*, September 28, 2018, <https://dailytimes.com.pk/303506/indo-us-communications-compatibility-and-security-agreement-implications-for-pakistan/>

⁸ “India & US Sign COMCASA, Pompeo Says no Decision on S400,” *Economic Times*, September 6, 2018, <https://economictimes.indiatimes.com/news/defence/india-and-us-sign-military-communication-pact/articleshow/65700604.cms?from=mdr>

and technology,” which has cost US businesses gravely in China. In the context of unfair business practices, the Trump administration also objects to “non-tariff barriers” in China which includes the “industrial subsidies, regulations, and business licensing procedures” which provide an unfair advantage to domestic Chinese businesses against the US enterprise. For instance, the US tech companies like Google, Amazon, and *Facebook* are either effectively barred from or severely constrained in the Chinese market.⁹ China has created its own versions of these portals such as, Weibo and Youku, whilst other companies are forced into unwanted joint ventures due to existing restrictions.

The Trump administration firmly believes that the US possesses enough power enough to win the existing trade war with China, and protect the rights of its domestic businesses. For instance, according to the 2016 statistics, US companies had invested up to US\$281 billion in other states, while businesses from other states invested up to US\$457 billion in the US — under which “3.4 per cent” of US Foreign Direct Investment (FDI) went to China. In comparison, most of America’s FDI went to Europe and the US businesses invested more in Europe than they did in China.¹⁰ However, under Trump administration, the US has also engaged itself in trade conflict with its allies such as Canada and the European Union (EU) which has affected trade flows gravely. For instance, under Trump administration, the North American Free Trade Agreement (NAFTA) was dissolved and, on November 30, 2018, “United States-Mexico-Canada Agreement” was signed which changed the clauses to benefit US businesses. The following timeline illustrates the beginning of US trade war with its international allies as well. On March 1, 2018, President Trump announced the impositions of 25 per cent tariff on steel imports and a 10 per cent tariff on aluminium — its allies such as Canada and EU vowed to retaliate in a similar fashion.¹¹

⁹ Paige Leskin, “Here are All the Major US Tech Companies Blocked Behind China’s ‘Great Firewall,’” *Business Insider*, October 10, 2019, <https://www.businessinsider.com/major-us-tech-companies-blocked-from-operating-in-china-2019-5>

¹⁰ Bryan Riley and Riley Walters, “Trump Takes Aim at China’s Bad Intellectual Property Practices,” *The Hill*, August 16, 2017, <https://thehill.com/blogs/pundits-blog/international-affairs/346806-trump-takes-aim-at-chinas-bad-intellectual-property>

¹¹ David J. Lynch, Josh Dawsey and Damian Paletta, “Trump Imposes Steel and Aluminum Tariffs on the E.U., Canada and Mexico,” *Washington Post*, May 31, 2018, <https://www.washingtonpost.com/business/economy/trump-imposes-steel-and->

On March 16, 2018, the EU published its own tariffs list on the US products which included “cigarettes, ovens, sailboats and cosmetics.”¹²

Another factor highlights that, by opting protectionist measures, the Trump administration aspires to reduce its trade deficit. This popular tactics will ultimately assist in rallying support for Trump in the upcoming 2020 elections as well. As the idea is that such measures will ultimately create more job opportunities for the US businesses and employees.

On the other end, Beijing firmly asserts that the US has been violating the international trade laws and following the unfair practice of “trade bullying.” China has been pushed into the corner under such circumstance and has been forced to retaliate by imposing its own tariffs to safeguard its interests. While US tariffs are focused on medium-and high-skill technology intensive products, the Chinese tariffs are focused towards “non-fuel primary products, and medium- and high skill technology intensive goods.”

Sino-US Trade Trajectory and the Trade War

In the last decade, China remains the top exporter to the US and has become the third largest importer of the US goods. It openly supports the domestic businesses to operate across its shores which has aided in directing FDIs within the state. Major US multinational businesses have established their franchises in China to enhance competitiveness on global scale in terms of profitability. From 2003 to 2017, China has added up to 26.6 per cent to world economic output while the US added up to only 15.4 per cent. In the US, the Chinese companies have bought major US franchises such as, “Starwood Hotels, Smithfield Foods, General Electric Appliance Business, and Motorola Mobility.”¹³

aluminum-tariffs-on-the-european-union-canada-and-mexico/2018/05/31/891bb452-64d3-11e8-a69c-b944de66d9e7_story.html

¹² Jeremy Diamond, “Trump Hits China With Tariffs, Heightening Concerns of Global Trade War,” *CNN*, March 23, 2018, <https://edition.cnn.com/2018/03/22/politics/donald-trump-china-tariffs-trade-war/>

¹³ Chris Moriss, “10 Iconic American Companies Owned by Chinese Investors,” *CNBC News*, May 11, 2017, <https://www.cnbc.com/2017/05/11/10-iconic-american-companies-owned-by-chinese-investors.html>

The Sino-US bilateral trade consists of both raw material and finished products such as “soybeans, pork products, transport equipment (passenger cars, planes), construction equipment, and high value-added electronics.” According to US statistics, from 2000 to 2010, the US exports to China grew by 468 per cent. According to Oxford Economics, “total exports (from US) to China directly supported 1.5 million jobs and generated US\$128 billion in GDP in 2015 (in US).”¹⁴ For instance, “Haier Enterprise” employs 12,000 US workers while “Wanxiang” is employing more than 12,500 US workers.¹⁵ In 2015 alone, China invested up to US\$14.8 billion in the US, a stark difference from its US\$277 million investment in 2000. While in 2016, China’s FDI in the US had reached to US\$45.6 billion which was three times more than 2015.¹⁶ These investments were placed in various sectors: real estate 38 per cent, transport and infrastructure 13 per cent; consumer 12 per cent; entertainment 10 per cent; electronics 9 per cent; information and communication technology 7 per cent; financial 4 per cent; and others 7 per cent.¹⁷

¹⁴ Anja Manuel, “US-China Trade: A Balanced Approach”, *Center for the New American Security*, November 7, 2017,

<https://www.cnas.org/publications/commentary/u-s-china-trade-a-balanced-approach>

¹⁵ “Understanding the US-China Trade Relationship”, *USCBC and Oxford Economics*, 2017, https://www.uschina.org/sites/default/files/Oxford_per_cent20Economics_per_cent20US_per_cent20Jobs_per_cent20and_per_cent20Chinaper_cent20Tradeper_cent20Report.pdf

¹⁶ Brian O’Keefe and Nicolas Rapp, “Politics Aside, Chinese Investment in the U.S. Is Booming”, *Fortune*, March 15, 2017, <http://fortune.com/2017/03/15/trump-china-foreign-investment/>.

¹⁷ Evelyn Cheng, “Chinese Investment in the US Drops 90 Per Cent Amid Political Pressure,” *CNBC*, June 20, 2018, <https://www.cnbc.com/2018/06/20/chinese-investment-in-the-us-drops-90-percent-amid-political-pressure.html>

Table No. 1
US Trade Volume with China (2009-2018)

| <i>Year</i> | <i>Exports(US\$Bn)</i> | <i>Imports(US\$Bn)</i> | <i>Trade Deficit</i> |
|-------------|------------------------|------------------------|----------------------|
| 2009 | 69,496.7 | 296,373.9 | -226,877.2 |
| 2010 | 91,911.1 | 364,952.6 | -273,041.6 |
| 2011 | 104,121.5 | 399,371.2 | -295,249.7 |
| 2012 | 110,516.6 | 425,619.1 | -315,102.5 |
| 2013 | 121,746.2 | 440,430.0 | -318,683.8 |
| 2014 | 123,657.2 | 468,474.9 | -344,817.7 |
| 2015 | 115,873.4 | 483,201.7 | -367,328.3 |
| 2016 | 115,545.5 | 462,542.0 | -346,996.5 |
| 2017 | 129,893.6 | 505,470.0 | -375,576.4 |
| 2018 | 111,158.4 | 493,489.9 | -382,331.5 |

Source: United States Census Bureau,
<http://www.census.gov/foreign-trade/balance/c5700.html>

In 2017, China's FDI accounted at US\$29 billion which statistically allocated at 36 per cent in real estate, 35 per cent in transport and infrastructure, 9 per cent in information and communication technology, 9 per cent in health and biotech, 5 per cent in financial and 6 per cent in others respectively.¹⁸ Table no. 1 reflects that China is in an advantageous position as compared to the US in bilateral trade.

In 2017, President Trump repeatedly vowed to bring back jobs to the US and directed the "Department of Commerce" to investigate whether imports of foreign steel from China along with other states could pose a serious threat to national security. The investigations revealed that the "intellectual property theft by China costs the US annually between US\$225 billion and US\$600 billion."¹⁹ By the end of 2017, the US trade deficit with China reached an outstanding US\$375 billion.²⁰ The statistics revealed that 75 per cent of the total US trade deficit with China emanates from the

¹⁸ Ibid.

¹⁹ Yukon Huang and Jeremy Smith, "China's Record on Intellectual Property Rights Is Getting Better and Better," *Foreign Policy*, October 16, 2019,
<https://foreignpolicy.com/2019/10/16/china-intellectual-property-theft-progress/>

²⁰ Ana Swanson, "By the End of 2017, US Trade Deficit with China Reached an Astounding \$375 Billion," *New York Times*, February 6, 2018,
<https://www.nytimes.com/2018/02/06/us/politics/us-china-trade-deficit.html>

“electronics and textile manufacturing sectors,”²¹ and due to China’s growing market share, it displaces those imports from its other economic partners. The statistics further showcased that the US imports from China amounted at US\$77 billion in computers and accessories, US\$70 billion in cell phones, and US\$54 billion in apparel and footwear.²² The crucial element is that a major chunk of these imports constitute of raw materials which are sent to major Chinese manufactures to assemble products at lower production costs. For instance, major companies such as Apple have their wide array of products assembled in China. On the other end, by taking advantage of China’s efficient global supply chain, Apple has been enabled to develop new products in the market at prices comparable to its biggest competitors such as the Korean giant Samsung.

The Chinese imports from the US consisted of US\$16 billion in commercial aircraft industry, US\$12 billion in soybeans, and US\$10 billion in autos.²³ Under one prism, China’s extended economic partnerships ultimately acts a stimulus for investments in the US. In the nutshell, being a key US exporter, the Chinese businesses ultimately supports millions of jobs for the US workers while boosting the overall economic growth of the state. This can be explained in two cycles: First, as higher degree of investments and imports improves the competitiveness of the US businesses, it lowers the costs for the US manufacturers. Second, the reduction in the cost of living of the US citizens to spend more money elsewhere prompting towards the lower inflations levels. i.e., standard of livings and growth value of domestic markets, are ultimately increased under the lower cost brackets along with lower inflation rates.

Aftermath of the Tariffs

Following the implementation of tariffs on the Chinese steel exports and other goods under Trump administration in 2018, China imposed tariffs on US\$50 billion tariffs on the products and goods including beef, poultry,

²¹ Andy Rothman, “Andy Rothman on Trump, China and Trade,” *Barron’s*, March 22, 2017, <https://www.barrons.com/articles/andy-rothman-on-trump-china-and-trade-1490235874>

²² Davendra Saksena, “War-Drums Over Trade,” *Statesman*, September 30, 2018, <https://www.thestatesman.com/opinion/war-drums-trade-1502690966.html>

²³ Wayne M. Morrison, “U.S.-China Trade Issues,” *Congressional Research Service* (CRS Report), January 3, 2019, <https://fas.org/sgp/crs/row/IF10030.pdf>

tobacco and cars and cancelled its soybean imports.²⁴ The US has so far imposed three rounds of tariffs on the Chinese products which amount up to US\$250 billion which range from 10 per cent to 25 per cent whilst covering a wide range of commodities. In the aftermath of these imposed tariffs, Chinese FDI has decreased within the US. In the first half of 2018 (Jan-May), the Chinese FDI dropped to US\$1.8 billion: health and biotech 58 per cent, real estate 20 per cent, entertainment 12 per cent, information and communication technology 6 per cent, and others 4 per cent.²⁵ The US maintained that the imposed tariffs on China were pivotal to ensure greater market access in China, and ultimately to stop the alleged “intellectual property theft” and its “high-tech subsidy programs” — with the hope to change China’s state-led economic model.²⁶ The charge of intellectual property theft encompasses a wide array of commodities: “counterfeiting American fashion designs, patent infringement and stealing proprietary technology and software, automobiles, aviation, consumer electronics, industrial software, biotech and pharmaceuticals etc.”²⁷ This essentially depicts that China has deliberately targeted the US economic growth and job opportunities.

Regarding US-China trade war, another point of view maintains that the Trump administration is ambitious to dismantle President Xi’s “industrial strategy: Made in China 2025” by targeting the hi-tech industries of China. For emerging economies such as China, acquiring the latest and innovative technology is pivotal to challenge the developed economies of the world. In the modern era of “hyper-globalisation,” trade war between global economic giants like the US and China creates unwanted repercussions for the global economy. China has emerged as a key economic partner for major international actors, especially in the context of BRI, can be of grave

²⁴ Kimberly Amadeo, “US Trade Deficit With China and Why It’s So High,” *The Balance*, <https://www.thebalance.com/u-s-china-trade-deficit-causes-effects-and-solutions-3306277>

²⁵ Evelyn Cheng, “Chinese Investment in the US Drops 90 per cent Amid Political Pressure.” SOURCE

²⁶ David Lawder, “Democrat-led House Seen Backing Trump’s China Trade War, Scrutinising talks with allies,” *Reuters*, November 8, 2018, <https://www.reuters.com/article/us-usa-elections-trade/democrat-led-house-seen-backing-trumps-china-trade-war-scrutinizing-talks-with-allies-idUSKCN1ND1HU>

²⁷ Dennis C. Blair and Keith Alexander, “China’s Intellectual Property Theft Must Stop,” *New York Times*, August 15, 2017, <https://www.nytimes.com/2017/08/15/opinion/china-us-intellectual-property-trump.html>

concerns for the US businesses. As Trump administration moves out of major economic deals, the trade war with China only opens new loopholes for Chinese businesses to invest in other countries. In short, China has enhanced its global influence across its shores, therefore, created newer opportunities to explore despite its ongoing trade war with the US. Trump administration needs to realise that the escalation in the trade war can be detrimental for its domestic markets. China, in the recent decades, has emerged as a strong contender for the US economy. Following the trade crisis, Chinese businesses have intensified their respective investment in Europe — “nine times more than its investments in North America.” This can be critically challenging for the US businesses in the middle and the long-term because there is a rise in unemployment domestically. According to a Brookings report, “if China continues to battle out by putting tariffs on all US products it has implicated towards, it would affect 2.1 million jobs across the US.”²⁸ Despite Trump administration’s call to support these industries, the proposed US\$12 billion assistance to the local industries will only help in the short-term without addressing the complication in the long haul. This scenario will also lead to reduced efficiency and competitiveness of the domestic firms.

Washington’s protectionist policies have escalated throughout 2018. So far, the US has imposed tariffs worth US\$250 billion of imports from China which put tariffs worth US\$110 billion on US products.²⁹ China plays the card of a manufacturing economy and in the wake of trade war with the US, it has been finding new markets for its vast products. While the US imposes protectionist policies with its allies and contenders, the economic vacuum is widened further for it, for instance trade between Canada and Europe intensified. The US is deliberately pushing its partners away in this crisis and challenging its own global domination — whilst allowing China to sustain its economic rise.

²⁸ Caroline Anderson, “US-China Trade War Implications,” *American Security Project*, July 26, 2018, <https://www.americansecurityproject.org/us-china-trade-war-implications/>

²⁹ Robert Subbaraman and SonalVarma, “The Implications of the U.S.-China Trade War on Asia”, *Brink Asia*, January 2, 2019, <https://www.brinknews.com/asia/the-implications-of-the-u-s-china-trade-war-on-asia/>

Implications on BRI and CPEC

a) Economic Opportunities and Challenges

The US-China trade war has significantly affected trade of both the states, US and China. This has negative impacts on other states as well. The states neither want to compromise their existing trade relations with China or the US, nor openly choose a side and defy the other. Consequently, the US and Chinese businesses are forced to find suitable substitute markets for their products and services. In turn, this scenario develops certain winners, as some states will be able to move forward and steal the limelight by expanding their trade volumes either with the US or China. Resultantly, lucrative trade ventures will emerge and, if exploited well, will affect GDP levels of the involved states. For instance, countries like Malaysia, Japan, Pakistan, Thailand, and Philippines may emerge as the beneficiaries of Sino-US trade war in various sectors such as, energy, textiles agriculture, and high-tech manufactures.³⁰ Similarly, in terms of import substitution, other states may have less to gain such as Bangladesh, India and South Korea.

However, China does have an upper hand in the trade wars due to its multi-billion-dollar project, BRI. Under the umbrella of BRI, China is swiftly enhancing its trading volumes with the partner states, whilst reducing its dependency on the US — both as a consumer and supplier. Statistics reveal that under the existing trade tensions, China has dropped agricultural imports from the US, whereas it has intensified agricultural imports from Africa, South Asia, the Middle East and Latin America. For instance, “China has offered access to Pakistani markets for three commodities (rice, sugar and yarn) which is worth US\$1 billion— which is a huge advantage for its agricultural sector.”³¹

Also, China is increasing its trade with the Middle East, Persian Gulf and African states, which would further intensify the significance of BRI in general, and China-Pakistan Economic Corridor (CPEC), the flagship

³⁰ Robert Subbaraman and SonalVarma, “The Implications of the U.S.-China Trade War on Asia,” *Brink News*, January 13, 2019, <https://www.brinknews.com/the-implications-of-the-u-s-china-trade-war-on-asia/>

³¹ Mubarak Zeb Khan, “Pakistan Gets US\$1bn Chinese Market Access for Rice, Sugar, Yarn,” *Dawn*, March 22, 2019, <https://www.dawn.com/news/1471165>

project of BRI, in particular. Furthermore, in the context of CPEC, new energy venture opportunities can also emerge gradually. Attracting more FDI to Pakistan, which can ease in both stabilising the GDP and energy needs of the state. The CPEC provides critical logistic routes to China and facilitates its ambitions to expand its energy imports to the route holding a far greater prominence. For instance, in 2017, Chinese trade ties with the Middle Eastern countries greatly improved — Saudi Arabia hit the mark as the biggest oil exporter to China in the region at US\$20.5 billion (12.6 per cent); followed closely by Angola at US\$19.8 billion (12.2 per cent), Iraq at US\$13.8 billion (8.5 per cent) and Iran at US\$11.9 billion (7.3 per cent). Overall, statistics showcased that, “about 40 per cent of China's crude oil imports came from the Middle East, and about 20 per cent from Africa.”³² Therefore, the potential of the flagship project would further heighten.

b) Two Sides of the Same Coin

The impacts of Sino-US trade friction are twofold. While, China’s economic partners under BRI share common goals and are in harmony with the international trading system, there exists a likelihood that BRI would also force smaller partners to adapt protectionists policies to safeguard their local industries. However, to ease out any hurdles emerging under the trade conflict, Chinese businesses are greatly investing in BRI partner states, addressing the reservations of the states while maintaining China’s economic supremacy. China has emerged as a key economic player and, by enhancing its imports and exports with its BRI partners, will benefit as its trade volumes will reach new heights. As China expands its reach of BRI partners, it can speed up the projects within the initiative to ensure the desired long and short term benefits of the involved actors. Under this scenario, China can actively intensify its export supplies to the BRI states that are still engaging in trade with the US under trade tariffs. This would ultimately accelerate trade diversion from China to South Asia, South East Asia, Africa, and the Middle East.

The uncertainty that other states might pursue protectionist policies remains to be on a smaller extent within BRI partner states. Therefore, trade

³² ShunsukeTabeta, Oki Nagai and Masanori Tobita, “China Turns to Africa to Mitigate Impact of US Trade War,” *Nikkie Asian Review*, September 5, 2018, <https://asia.nikkei.com/Economy/Trade-war/China-turns-to-Africa-to-mitigate-impact-of-US-trade-war>

protectionist policies need to be avoided to promote free trade to ensure robust economic growth. In the similar vein, to avoid the US tariffs, Chinese businesses can also reallocate within states with lower tariff levels to ensure business profits. For instance, the reallocation of Chinese businesses within Taiwan and Hong Kong can allow them to overcome the existing tariffs without legal complications.

Furthermore, the Sino-US trade conflict has further strengthened the trade connectivity in the Asian region. The regional businesses realise that there are far greater production risks and they cannot rely solely on the US as a risk-free supplier of critical goods. This has been an unwanted result of Trump's "America First" policy. In the wake of the US tariffs, China has found substitute markets for high-tech products with its Asian partners — China imports nearly "70 per cent of its high-tech goods from Japan, South Korea, Taiwan, Singapore, and European Union."³³

The stark reality is that the more the US tries to isolate China in the world economy, the more its allies have tried to establish a stronger foothold within Chinese markets — whether its Canada, Europe or Japan. In the case of Europe, UK's exit from EU may have a looming threat of economic fall-out within its markets; therefore, economic engagements with China can re-direct foreign investments that are pulled under Britain's disengagement. Strong bilateral engagements with or without the umbrella of BRI agenda can create a "win-win" economic scenario for the involved players. The US manufacturing and agriculture sectors are losing out their market shares in the Chinese markets and the state is unavoidably providing substitutes to ensure that its domestic businesses remain afloat.

More importantly, China's trade volume with BRI states also increased in 2018 at US\$1.3 trillion, which accounts for a 16.3 per cent increase from 2017. The Chinese exports to this group of states had also witnessed an increase of 10.9 per cent in 2018 to US\$704.73 billion, while its imports also witnessed a rise of 23.95 per cent to US\$563.07 billion. In 2018 alone, Chinese businesses had made US\$15.65 billion worth of investments in 56 BRI partner states. The BRI project aims to strengthen China's trade links through infrastructural investments across 85 states in Asia, Europe, Africa and South America. Few of the major projects under the initiative include

³³ Parag Khanna, "America First, Meet Asia First," *Quartz*, February 6, 2019, <https://qz.com/1544220/america-first-meet-china-first/>

“direct China-Europe cargo train links and railroads linking Laos and Thailand to China” along with, investments in overseas port projects such as Hambantota Port in Sri Lanka and Piraeus Port in Greece. China’s trade with its Gulf partners is expected to rise further under the strategic maritime route. For instance, Qatar is expected to increase its energy exports to China up to 40 per cent in the coming years. The probability for furthering economic bonds is inevitable as China plans to invest US\$1.3 trillion in BRI member states by the year 2027.³⁴ This would mark it as the single largest investment by any state to aid regional connectivity, emerging as another hallmark for China’s growing economic outreach.

In 2018, China’s foreign trade improved despite the uncertain dynamics of the global economy. In spite of increased global interconnectivity, the political and economic landscape of the international arena has become more complicated. Trade protectionist measures, opted by some states, has ignited the fire of uncertainty in the world economy and trade while impeding the global growth. “Unilateralism” adopted by the US under Trump regime threatens the process of economic globalisation and international cooperation bringing forth uncertainties to the development of global trade and investment.

The trade conflict poses a grave threat: if the Chinese economy hits a slump it can reduce its investments in the short-term. This can backfire as various infrastructural projects within the mega BRI will experience a halt or delay, creating economic tensions for its economic partners, as their respective economies would greatly suffer. From this perspective, serious implications for Pakistan can emerge since the prices of steel, aluminium and other appliances will increase the production costs of the infrastructural projects. This can darken the prospects of progress that Pakistan is expected to witness under the umbrella of CPEC initiative. More importantly, under the current leadership of Pakistan, the ambitious project to provide “5 million housing units” for the lower income class in coming five years can hit a serious halt.

³⁴ Mian Abrar, “China to Invest US\$1.3tr in BRI States by 2027,” *Profit*, April 19, 2019, <https://profit.pakistantoday.com.pk/2019/04/19/china-to-invest-1-3tr-in-bri-states-by-2027/>

c) Security Front

Under BRI, the Chinese investments are not only centred upon establishing robust trade routes, but also focused to create interconnectedness within the region. To counter the existing radicalism and extremism across the BRI region, especially radical groups in Xinjiang province, China intends to rapidly develop CPEC as it is pivotal to its development and security agenda which simultaneously coincides with its security interests with Pakistan — especially in the context of deterring extremism and militancy in South Asia. China firmly believes that the development of Xinjiang province is needed to curb militancy and terrorism in China.

For Beijing, three aspects are crucial to ensure that its investments within South Asia are not dismantled by wars pursued by the West:

- i. China strongly fears that insurgents within Xinjiang can influence the dynamics of Tibet region, Pakistan and Central Asia, therefore, stability within Afghanistan becomes a prime goal.
- ii. To ensure that trade activity within the region is not affected by any outside contenders.
- iii. To balance out India ambitions to acquire regional hegemony.

In short, the existing security issues within the region allows the US to play a dominant role in the regional politics. China firmly believes that once threats to regional stability are countered affectively, not only the region can experience the desired economic boom, but China will also have a lead at the regional front. At one end, the existing trade war can dismantle this objective as it would shift the focus of the developing economies towards maintaining their GDP output in the wake of various price changes. On the other end, Chinese businesses can further intensify their respective investments with its allies of BRI project. Supporting the cause further to ensure sustained regional stability.

Conclusion

In the present era of hyper globalisation, trade protectionist policies can create serious implication for the global economies. The trade friction between China and US has serious implications for both states and the world. Sino-US trade wars has created uncertainty in international trade. A

tariff détente will ultimately assist companies that have struggled under the trade war already such as, manufacturing, automotive, tech companies, and agriculture industries. Studies have showcased that the trade war has generated more damage for the US economy, including the “retaliatory tariffs other states have levelled against American exports.” The trade friction has opened other loopholes for China to gain advantages. Chinese enterprises can further their investments in the BRI states to meet the shortcomings from its trade war with the US. From this perspective, BRI states will also have to carefully pursue policies to ensure that the trade crisis does not damage the progress of their respective projects, whilst aiding and assisting each other in the time of crisis via intensifying their respective economic engagements.

What remains evident is that unilateral policies that the US has adopted have generated unwanted economic results. China is still attempting to tackle its economic growth by further expanding its economic scope. BRI project continues to welcome newer partners, such as the case of Latin America and Italy. US cannot step back from the principles of liberalism it has pioneered over the years. If the US is attempting to take a page from British economic policy, via pursuing trade protectionist policies like Britain ambitions under Brexit, it can have unwanted results which cannot be overcome. The shots have been fired, but sustainable economic policies have not been applied and the downfall for its economy under its decision to exist from EU is yet to be witnessed. The trade friction between the US and China can also result in similar turmoil.