Sino-US Trade War: Foreseeable Impact on Pakistan

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Abstract

Two major players in the world economic order – the US and China – are entangled in a foreseeably long and highly competitive trade war, one that could have serious implications for the global economy. It would rather act as a brake on the global growth at a time when economies in the developed world need to grow faster to pay down debts accumulated the since the financial crisis. Overall, there is an overwhelming evidence that trade has augmented in those developing countries where supportive policies have been in place. Over time, the countries have learned to balance trade policies with higher investment in infrastructure and education. With the global trading system under assault now, the question for developing countries is how to respond. The enhanced threat from a looming trade war scenario, consequently, is greater than the possible gain from the liberalisation of trade. These mitigating circumstances present a bleak picture not only for the two countries at the forefront of this crisis but for the entire international economy also, particularly for the developing countries like Pakistan. Thus, in the global economic discourse, the longstanding argument between trade protectionism and liberalisation has come to the fore once again.

Keywords: Sino-US Trade War, Tariffs, Economy, Protectionism, US, China.

Introduction

Globally, trade policy has had a very chequered history, bringing economic benefits to some domestic sectors and damaging to others. International trade also introduced competition and efficiency into domestic industries along with increasing national Gross Domestic Product (GDP), global integration and dependence among nation-states. Over the course of history, trade assumed a unique role in a country's economic policymaking

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apparatus, determined by multilateralism and competition.[1] One can, thus, see a consistent narrative emerging out of all theories of trade, in which nations try to seek out weakness in other states, maximise their own competitive advantage by exploiting it, getting economic rewards and, thus, furthering their trading status on the global stage.[2]

The origin of trade wars depends on the perception of a country's trade policies by other nations: whether it is discriminatory internationally or politically biased to reduce domestic consumption. Trade wars, therefore, appear to be emerging from a lack of understanding of the extensive benefits that free trade can provide to a country.[3] The major difference between a trade war and other policies limiting economic activities like sanctions is that it can have an unfavourable impact on the existing trading relationship between the two countries leading to the collapse of existing trade benefits on the whole.[4]

The US and China have fired the opening salvos of what could become a full-scale trade war between the world's major economic players. To date, Washington's stated policy was to warn the global community about the detrimental impact trade restrictions and trade wars can create; this led to the creation of a world market that benefited the leading economies. The US formulated the free trade rulebook, which is now proving a nuisance to its own precepts of free trade. Economically, the overall scenario does not bode well for Washington and it can help China gain support in the trade community for its restrained stance on tariff policies. Nevertheless, global markets are taking the long-term risk far more seriously than other geopolitical problems in recent years like Brexit, conflict in the Middle East, volatile oil prices and rise of populist governments across the world.

In May 2015, the government of China initiated its strategic economic plan titled 'Made in China 2025,' designed to reduce the country's

[1] Douglas A Irwin, "A Brief History of International Trade Policy," The Library of Economics and Liberty, November 26, 2001, https://www.econlib.org/library/Columns/Irwintrade.html
[2] Ibid.
[3] Jon Zamboni, "The Definition of Trade Economics," Bizfluent, September 26, 2017, https://bizfluent.com/facts-7797749-definition-trade-economics.html
[4] James Chen, "What is a Trade War?," Investopedia, August 2018, https://www.investopedia.com/terms/t/trade-war.asp.

dependence on imported technology.[5] Under this plan, 10 focus areas were highlighted with the purpose to bridge the hi-tech expertise gap with the West, especially the US and become a leader in this field. However, this plan became a contentious issue in the US, once the trade war took off with the imposition of retaliatory tariffs by both sides.[6] Both Beijing and Washington are targeting each other's vulnerabilities: the US tariffs have been imposed on the sectors that Beijing aims to develop as part of its 'Made in China 2025 Plan,' while retaliatory tariffs have mainly targeted the US agriculture products that make up a large share of the American exports to China.

The recent trade fallout cannot hide the fact that the US and China have been major trading partners for decades. On July 6, 2018, the US President, Donald Trump announced tariffs on the Chinese products worth US$34 billion, which did not have an immediate response from Beijing.[7] The announcement came after months of speculation in which the US President on various occasions had threatened to impose tariffs on China if the trade imbalance was not addressed. These tariffs, according to the White House, are the first round in tariff imposition, which could be increased to a third of the Chinese goods coming into the US.[8]

The US will be faced with many difficulties in its bid to resolve the bilateral trade deficit with China. This is mainly because most of the US corporations have outsourced their production units offshore to mainland China as labour-intensive production is less cost-intensive in China. Furthermore, China has removed many of the import barriers it had in place previously leading to a decrease in the deficit between the two countries. The current US administration mantra of 'bringing back the outsourced industries to the American shores,' through trade protectionist policies will be faced with difficulties, due to the complex workings of international trading networks. There is a complementary relationship that exists between the economies of both the countries, which derives globally 40 per cent of

[5] Scott Kennedy, "Made in China 2025," CSIS, June 1, 2015, https://www.csis.org/analysis/made-china-2025
[6] Ibid.
[7] Rebecca Tan, "The US-China Trade War Has Begun here's How Things Got to this Point," *Washington Post*, July 6, 2108, https://www.washingtonpost.com/news/worldviews/wp/2018/07/05/a-timeline-of-how-the-u-s-china-trade-war-led-us-to-this-code-red-sit.
[8] Ibid.

the GDP, 25 per cent of the total exports and 30 per cent of all Foreign Direct Investment (FDI).[9]

Set in this context, the aim of this paper is to evaluate the long-run consequences of the global trade war and its impact on the economic development of Pakistan. This paper will also try to address how much the economy of the country will be affected by the trade war issues and whether the changes in the size and direction of global trade will determine its impact on the economic growth of the country in the foreseeable future.

Origins and Evolution of Sino-US Trade War

International trade has gone through different phases over the past few centuries. It started off as a barter system; morphed into mercantilism by the 16th century; and got replaced by trade liberalism in the 18th century. By the mid-19th century, it had evolved into the age of professionalism and expertise, which lost pace by the turn of the 20th century.[10] In order to ease the world economic situation which had taken a downturn after the World War I, in May 1927, the League of Nations organised a conference of the leading industrial powers to restructure international trade rules. The result of this conference was the signing of the Multilateral Trade Agreement, which formed the basis of the General Agreement on Tariffs and Trade (GATT) in 1947.[11] This significant development became a precursor of the World Trade Organisation (WTO) whose operations started on January 1, 1995.[12] There are many precedents for the US trade wars starting with Smoot-Hawley, 1930; Chicken Friction, 1963; Jabs at Japan, 1981; War of the Woods, 1982; Pasta Spat, 1985; the Battle of the Bananas, 1993; Steel Salvos, 2002,[13]leading to the recent trade war with China.

After a prolonged period of regular tweets from President Trump, the US decided initially to levy 25 per cent tariffs on the Chinese goods worth

[9] Manish Singh, "Market Viewpoints," *Cross Bridge Capital*, March 2018, http://www.crossbridgecapital.com/?post_type=marketview-points&p=2609.
[10] Prachi Juneja, "History of International Trade," MSG Management Study Guide, https://www.managementstudyguide.com/history-of-international-trade.htm.
[11] "The WTO," World Trade Organisation, https://www.wto.org/english/thewto_e/thewto_e.htm.
[12] Ibid.
[13] Jeff Desjardins, "A Short History of US Trade Wars," Visual Capitalist, July 13, 2018, https://www.visualcapitalist.com/history-u-s-trade-wars/

US$50 billion and a further 10 per cent on US$200 billion worth of imports. China reacted by putting 25 per cent tariffs on the US products worth US$50 billion, until such time as the situation improves.[14] During the Fiscal Year (FY) 2017, the US had accumulated a trade deficit of US$375.2 billion vis-à-vis China, leading President Trump to demand the deficit be reduced by a minimum of US$200 billion till the financial year 2020 by imposing tariffs.[15] Across the world, there is a growing concern about intensifying the US protectionist policies, a fact which was underlined by the US tariff announcements. The main aim of the US tariffs is to cripple the Chinese technology sector whereas China's response has been to target the US agriculture sector and decrease its export revenues.[16]

The imposition of tariffs signals a departure from America's traditional support of global free trade. Despite being a longstanding champion of free trade, President Trump believes that the US has been exploited and, hence, suffered trade imbalances, particularly with China. His aim is to renegotiate the US trade relationships with other countries, which, he believes, will bring benefit to the American people and economy. This US retreat from the international trading system has cast doubt about its future viability. The first step, in this direction, was taken when the US president announced a levy of tariffs on the imported Chinese steel and aluminium products. China felt cheated that the mutual trade benefit which had accrued over the past four decades of economic collaboration was completely ignored by President Trump.

The Chinese state policies are seen by the US as interventionist, aimed at distorting world market prices and affecting its attractiveness in acquiring potential strategic assets. Moreover, the inflated prices led to the merger of inefficient Chinese firms with more productive American companies. These policies are being advanced under 'Made in China 2025' programme according to the US, stagnating its innovation, thus, weakening its diverse

[14] Jeremy B White, "We're Putting the Trade War on Hold' US Says after Meeting with Chinese Officials," *Independent*, May 20, 2018, https://www.independent.co.uk/news/world/americas/us-politics/trump-tariffs-china-trade-war-aluminum-steel-steve-mnuchin-a8360536.html

[15] Ibid.

[16] Alicia Garcia-Herrero, "What Are the Targets in the US-China Trade War," Brugel, April 10, 2018, http://bruegel.org/2018/04/what-are-the-targets-in-the-u-s-china-trade-war/

competitive advantage in the global setting.[17] For years, China defended these practices on the grounds that it was a developing country. However, now that China has reached a point of being the second biggest global economy, a consensus is building in the US that Beijing can no longer go on misleading the international order by pursuing such blatant mercantilist policies.[18]

For a long time, the US has warned its principal trading cohort of a looming trade war. As the world's number one exporter, China has a comparative advantage over other nations in manufacturing consumer goods at lower costs. Furthermore, compared to the US and Western European countries, China's living standard is inferior due to its lower basic wage structure. On the other hand, the US companies cannot compete with China's economies of scale, therefore, it loses out on jobs for its populace. Being a consumer country, the US wants these goods for the lowest possible prices, thus, it is unable to pay extra for 'Made in America.'[19] Overtime, in the absence of international competition, the local companies might lose competitiveness and, although local companies might benefit, the economy would not. The quality control of the indigenous goods tends to decline when they are not faced with outside competition, which leads to a decline in inter-industry innovating techniques to enhance production.[20]

The outcome of the ongoing trade war is likely to become apparent on the economies of both the US and China by 2020 but several immediate impacts can also arise. These include a breakdown in consumer-producer networks across the world, leading to higher costs of manufacturing, loss of profit, rise in unemployment, reduced access to goods and higher prices. Thus, the carryover effects will be felt by both sides of the supply-demand spectrum, causing a decline in trade volumes.[21]

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[17] Tom Holland, "US-China Trade War: Not About Trade, Not About Trump. Here's What it is About," *This Week in Asia*, April 23, 2018, https://www.scmp.com/week-asia/opinion/article/2142568/us-china-trade-war-not-about-trade-not-about-trump-heres-what-it

[18] Ibid.

[19] Kimberly Amadeo, "Trade Wars and Their Effect on the Economy and You," *Balance*, 2018, https://www.thebalance.com/trade-wars-definition-how-it-affects-you-4159973

[20] Ibid.

[21] Ahmad Rashid Malik, "The US-China Trade War," *Nation*, October 29, 2018, https://nation.com.pk/29-Oct-2018/the-us-china-trade-war.

Impact of Tariffs

With the impact of global financial crisis still reverberating in the world economy, the US-China trade war has the potential to plunge the globe into more financial difficulties. The impact of the 2008 financial crisis is still being overcome with international organisations, like the IMF, believing that bumps on the road to recovery remain. Furthermore, the trade barriers will slow down growth, afflict the financial sector and hinder the dissemination of hi-tech information across the world.[22] The IMF's *World Economic Outlook Report* released in October 2018, presents a dismal picture of the world economy, with the global GDP projected to be 3.7 per cent, down from previous projections of 3.9 per cent for 2019 and for Asia from the projected growth of 5.6 per cent to estimated 5.4 per cent.[23] While the current situation of the tariff imposition by both the US and China have been taken into account for the current forecasts, these figures do not reflect any future tariffs that may be put in place by both countries and their likely bearing on global growth. The individual impacts on both the Chinese and US economies will, thus, be more far-reaching perhaps than originally anticipated.

a) China

The additional duties, which were put into effect in July 2018 have already started to hurt China's export sector. The ISM[24] index, the primary index to gauge the health of China's exports, fell by 0.4 points to 49.4 in August 2018. In addition to hurting China's exports, the US tariffs have also caused

[22] Bill Diviney and Arjen Van Dijkhuizen, "The Macro Impact of the US-China Trade War," ABN-AMRO, September 18, 2018, https://insights.abnamro.nl/en/2018/09/global-daily-the-macro-impact-of-the-us-china-trade-war/

[23] Erwida Maulia, "US-China Trade War Threatens Asia with 0.9 per cent Loss of GDP," *Nikkei Asian Review*, October 12, 2018, https://asia.nikkei.com/Economy/US-China-trade-war-threatens-Asia-with-0.9-loss-of-GDP

[24] A monthly composite index, released by the Institute for Supply Management, that is based on surveys of 300 purchasing managers throughout the US in 20 industries in the manufacturing area. The index is released on the first business day of the month and covers the previous month's data, which makes it particularly timely. If the index is above 50, it indicates that the economy is expanding. Values below 50 indicate a contraction.

damage to China's reputation as an investment destination. The foreign manufacturing businesses stationed in China are now becoming uneasy and there are talks of the possibility of shifting production to other countries.[25]

China is already taking steps to salvage its economy from a further downturn, by trying to negate the effects of the ongoing trade disputes with the US. In this respect, the Chinese State Bank (PBC) announced that it would reduce the banks' Reserve Requirement Ratio (RRR) by another 100 basis points from 15.5 per cent for big banks and from 13.5 per cent for small banks, which came into effect from October 15, 2018.[26] It may be mentioned that the latest RRR cut was the fourth by PBC in 2018. The latest move is expected to increase the cash liquidity in the banking sector by 750 billion yuan, reaching a total amount of 1.2 trillion yuan in cash flow, to counter external shocks.[27]

The Chinese economy continued to weaken in the last quarter of the FY-2018 as the impacts of the trade war started to take its toll. The IMF predicts that growth will be hardest in the first half of next year when the full effect of the US tariffs is felt along with a fall in the GDP growth from expected levels in 2019.[28] According to the IMF, the current trade strains could lead to a reduction of 1.6 per cent of China's GDP by 2020 but the likely impact can be lessened if effective economic policies are put in place by the Chinese government to increase economic growth.[29]

[25] Saad Rajput, "China-US Trade War: Will There be a Winner?" *Friday Times*, September 14, 2018, https://www.thefridaytimes.com/tft/china-us-trade-war-will-there-be-a-winner/

[26] "The China-US Trade War," *Business Recorder*, October 13, 2018, https://fp.brecorder.com/2018/10/20181013414830/

[27] Ibid.

[28] John Carter, "China Economy Showing Effects of Trade War as Growth Slows Again in November," *South China Morning Post*, December 14, 2018, https://www.scmp.com/economy/china-economy/article/2177929/china-economy-showing-effects-trade-war-growth-slows-again

[29] Yen Nee Lee, "Trade War Could Cut China's Growth by Nearly 2 Percentage Points over Two Years: IMF," *CNBC*, October 12, 2018, https://www.cnbc.com/2018/10/12/international-monetary-fund-on-impact-of-trade-war-on-china-economy.html

b) US

The US economy is not immune from the impact of these tariffs either. The prices of the US steel and aluminium have increased sharply since the start of the trade war and the price of the 'US Midwest hot-rolled coil steel' (the US steel price benchmark) has increased by a significant 36 per cent.[30] This may farewell for the US steel industry (since rising prices mean rising profits) but will lead to a consequent rise in the prices of goods made with metal. The sectors such as real estate and homebuilding could experience a slump.[31]

On the other hand, the Chinese tariffs on soybeans ─ the largest US agricultural export to China worth about US$14 billion annually ─ have caused soybean prices in the US to dip. This could very well cause a loss of income (and even unemployment) for the American farmers. Thus, these tariffs may provide a boost to the American industries such as steel production and electronics but losses in other sectors (such as agriculture, construction, transportation and trade services) will far outstrip the gains. According to the analyses conducted by Trade Partnership ─ an industry group that examines trade issues ─ steel and aluminium tariffs could create up to 30,000 jobs but cause loss of about 400,000 jobs, due to spill-over effects in other sectors. In such a scenario, the ultimate result would be a slowdown of the US GDP growth.[32]

When the Chinese tariffs would take effect, they could make the business environment more challenging for establishing the agricultural, motor vehicles, aircraft and chemical industries. However, the overall effect on the US economy should be limited, at least in the near term. That said, there could be other knock-on effects that might affect the US adversely. The stock market is likely to weaken, resulting in a decrease in household income and spending power. In the US, the bond yields could rise if China

[30] Mariko Paulson, "The Economic Costs of a Trade War," Penn Wharton, March 14, 2018, http://budgetmodel.wharton.upenn.edu/issues/2018/3/14/the-economic-costs-of-a-trade-war

[31] Ibid.

[32] Kevin Kelleher, "US Economy Will Slow in 2019, May Enter Recession in 2020, Economists Forecast, Trump Administration Disagrees," *Fortune*, November 21, 2018, http://fortune.com/2018/11/21/us-economy-slow-2019-recession-2020-economist-forecast/

sold some of its sizable shares of the US Treasury securities. In sum, a full-blown trade war is not in the best interests of the US.[33]

The IMF stated that if the US was to go through with its plan to place further 25 per cent tariffs on imported cars, interest rates would go up, leading to the increased cost of borrowing and decrease in investment opportunities for businesses.[34] In the worst case scenario, the economies of both the US and China will take a major downturn, with the projected Chinese GDP growth rate falling to 5 per cent from 6.2 per cent in 2019.[35]

c) Pakistan

A negative trend can already be seen in the international markets, after the initiation of the trade war, as global markets have seen their stocks dropping over the ensuing uncertainty. With the major economies suffering setbacks, its impact can be felt across the developed and emerging markets as well, especially those whose main export markets are the US and China. This is mainly because, in the current globalised world, trade networks are integrated both vertically and horizontally and therefore, adverse conditions reverberate across the board.[36] Since Pakistan is not a major player in the world economy, the current trade war is likely to have a limited impact on the country. 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) with those countries with low or no tariff regimes, which can give in-demand Pakistani products special preferences.[37] If the trade war advances further, the textile sector and the apparel market may suffer in the long run.

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[33] Hedrick-Wong Yuwa, "The US-China Trade War and Global Economic Dominance," *Forbes*, September 11, 2018, https://www.forbes.com/sites/yuwahedrickwong/2018/09/11/the-u-s-china-trade-war-and-global-economic-dominance/#7e9f2e7b256a

[34] Szu Ping Chan, "US Trade War Would Make World 'Poorer and More Dangerous,'" *BBC*, October 9, 2018, https://www.bbc.com/news/business-45789669

[35] Ibid.

[36] Vaqar Ahmad, "Global Trade War: The Implications for Developing Economies," *Arab News*, April 22, 2018, http://www.arabnews.com/node/1289421

[37] Media, "Pakistan Unlikely to Suffer from the US-China Trade War in the Short Term, Experts," SDPI, April 23, 2018, https://sdpi.org/media/media_details3299-press-2018.html

During FY-2018, Pakistan's economy suffered from twin deficits of both current account deficit and fiscal deficit, leading to stagnating of the economy and lowering of the GDP growth rate. Depreciation of the exchange rate, high inflation, decrease in FDI and increase in oil prices also had an impact on the economy of the country. This led to an overall decrease in the purchasing power of the domestic consumer, slowed down industrial growth and increased construction costs.[38] As Pakistan is an importer of iron, steel and aluminium from China and the US, the prices of both steel and aluminium will decrease in the country due to excess supply. However, Pakistan will not be able to take advantage due to its ailing economy. The costs of electronic appliances, machinery and solar panels will likely decrease as well, however, the buyers might not be in a position to buy for lack of funds. In turn, the China-Pakistan Economic Corridor (CPEC) projects could face serious problems due to the increased costs, which can lead to delays in completion of the projects already underway, pressuring the already fragile economy of the country. Prime Minister Imran Khan's government development budget would also have to be controlled, while its 5 million housing projects for the poor are also likely to be adversely impacted.[39]

Pakistan and China are friendly countries with limited trade barriers and both countries had signed an FTA in 2006. The CPEC provides Pakistan with a chance to fulfil its potential of becoming a major trading centre in the region by linking Northeast China and the Central Asian Republics with the Middle East and Western Europe. Pakistan and China both envisage the CPEC to be an all-encompassing project, with its major component being enhanced connectivity in the region, as part of Belt and Road Initiative (BRI).

Situated in Pakistan's underdeveloped province, Balochistan's Gwadar port will be the hub with rail and road links connecting it to rest of the country. Another part of the CPEC was the investment in the energy sector to diminish Pakistan's energy difficulties and encourage industry rehabilitation. Both federal and provincial governments need to be on the

[38] Ayaz Umar, "Economy of Pakistan in 2018," *Nation*, September 13, 2018, https://nation.com.pk/13-Sep-2018/economy-of-pakistan-in-2018

[39] Ahsan Nisar, "Implications of US-China Trade War for Pakistan," *Pakistan & Gulf Economist*, October 8, 2018, http://www.pakistaneconomist.com/2018/10/08/implications-of-us-china-trade-war-for-pakistan/

same page to completely induct the potential impact of the CPEC. Under the 18th Amendment to the constitution, devolution of power took place to the provinces, with the federal government being responsible for the overall economic policy. It is now up to the provincial governments to create a suitable climate to attract private investment, to augment the public investment in the CPEC projects.[40]

Pakistan's Ministry of Commerce recently announced its Strategic Trade Policy Framework (STPF) 2018-23 to enhance the country's trade.[41] The framework of the new trade policy entails improving the dismal performance of the export sector. The current policy was designed on the basis of learning from the previous trade policies and the current economic environment surrounding Pakistan. The main aim of STPF would be to reduce red tape and ensure smooth financial and procedural working, through the removal of existing blockages in the system, giving a much-needed boost to the export sector. The focus of this trade policy will be:

i. Product Sophistication and Diversification
ii. Market Access
iii. Institutional Development and Strengthening
iv. Trade Facilitation. [42]

Pakistan, through its planned STPF, should give more attention towards supply-side distortions to tackle the emerging challenges such as the recent US-China trade hostilities and to be competitive and innovative in the global market. Pakistan must also invest more in its human resource development and strengthen its research and development to ensure the quality of its products and competitiveness.

[40] Ehsan Choudhri, "Pakistan's International Trade: The Potential for Expansion towards East and West," International Growth Centre, May 2, 2017, https://www.theigc.org/project/pakistans-international-trade-the-potential-for-expansion-towards-east-and-west/
[41] TDAP, "Trade Policy," Trade Development Authority of Pakistan, https://www.tdap.gov.pk/trade-policy.php
[42] Ibid.

Analysing the Future Trends

Due to Sino-US trade tensions, the developing countries will suffer the major economic shocks. Under the Sustainable Development Goals (SDGs) of the UN, it is envisioned that by 2020, the developing economies would increase their share of exports in the world market. However, recent events can severely undermine the growth of the developing economies and limit their potential gains from global trade, causing a situation of increased inequality, both within and outside developing countries.

The initial effects of the trade war will be felt across the world, rather than in the two countries that are involved. Long-term risks also may persist if the situation does not improve, eventually slowing down global growth by creating turmoil in the financial markets, by decreasing investment and consumption. Already the Dow Jones has lost more than 100 points in July 2018 and the Chinese yuan lost 3.5 per cent of its value against the dollar, since the tariff announcement in June 2018. The two economies are large enough to absorb these initial shocks but if the situation prevails, the GDP of both countries will regress in the future.[43] Beijing needs an alternative to deal with any potential fallout. If relations with Washington deteriorate any further and the trade war escalates, China's policymakers will need to step up their game, making up for any shortfall in demand, by having a flexible monetary policy for as long as possible to stimulate growth.

In the long-term, the US manufacturing firms stationed in China could be forced to reorganise their supply chains and relocate low-cost production in countries like Vietnam, Malaysia and Mexico.[44] There will be little likelihood of these firms moving production to the US, due to higher production costs. This would defeat one of the Trump administration's main objectives behind increased protectionism: to shift manufacturing jobs back to the US. Increased protectionism will not have a significant impact on the US trade deficit either. High import volumes are essentially an inevitable by-product of a robust US economy, a strong US dollar and a large fiscal

[43] "US-China Trade War to Weaken Investment, Slow down Global Economy, Say Experts," *First Post*, July 7, 2018, https://www.firstpost.com/world/us-china-trade-war-to-weaken-investment-slow-down-global-economy-say-experts-4685521.html
[44] Saad Rajput, "China-US Trade War: Will There Be a Winner?" *Friday Times*, September 14, 2018, https://www.thefridaytimes.com/tft/china-us-trade-war-will-there-be-a-winner/

deficit. Evidence shows that protectionist measures (such as tariffs) do not reduce trade deficits, although they do increase economic costs and inefficiencies. It remains to be seen how long this trade war lasts but one thing is for sure: it will not bode well for the global economy, nor for the US and China in the medium to long term. The reason is not just the disruption of trade but more importantly the erosion of business confidence.

The impact on Pakistan is likely to be benign due to limited integration with the global supply chain. However, things may change, if the relationship between the US and China further deteriorates. Pakistan, like other countries, could lose if the confrontation continues to escalate with negative consequences on the global economy and its exports. On the other hand, the ongoing war could boost the prospects of Pakistani exports by encouraging the Chinese manufacturers to move to Pakistan to avoid retaliatory tariffs on their US exports and take benefit of less cost-intensive manpower in Pakistan. It would be better for the policymakers of the country to monitor the unfolding situation closely and be prepared to take the necessary steps in time to avoid undesirable consequences on the economy.[45]

Conclusion

Both the US and China follow different paths towards economic growth even though their goals are the same ─ to be the strongest economy in the world, their workings are quite dissimilar. Whereas the US follows a policy of trade liberalisation, with mostly free-market stimulating innovation and steering economic growth, China follows a policy which is a mixture of trade liberalisation and protectionism, leading to a more steered economy in which state enterprises are favoured in an autocratic industrial policy. In order to reach some form of resolution in the trade negotiations, both sides need to understand and appreciate these fundamental differences between their economies, otherwise, they will remain engaged in retaliatory tariff regimes. The main objective of the US trade policy aims to effect change in China's economic outlook to a more liberalised one, rather than achieve successful outcomes in trade negotiations.

[45] "The China-US Trade War," *Business Recorder*, October 13, 2018, https://fp.brecorder.com/2018/10/20181013414830/

In a typical trade war scenario, uncertainty leads to postponement of investment and consumption decisions and when two of the world's largest economies clash, no-one knows what might happen to global supply chains and more importantly, to the international economic order. Such unprecedented uncertainty is only bound to cause suffering for the world economy. In the current scenario, it can be argued that the US consumers have far more at stake, due to the imbalanced nature of trade in favour of China. However, due to the integrated supply-chain network, the implications for both consumers and producers across the world would be far-reaching.