

US-China Trade War and its Impact on Pakistan Exports

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Abstract *This research study attempts to explore the effect of a trade war between the United States of America and China on Pakistan and other regional countries exports to the United States of America. 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.*

Key Words: Trade War, trade diversion; tariffs, United States; China; Pakistan

JEL Classification:

Introduction: Pakistan, China, and US Trade Relation

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 defence 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

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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.

The trades between Pakistan-US have a great history of agreements overtime on the basis of immediate reforms and sustainable working. The Doha trade and WTO agreements are solid evidence of cooperation for both countries. The trade policy suggests more working in both countries on the basis of trade liberalization and free trade agreements. Historically, between both countries, political relations have dominated economic and social ties. The episode of partnership is also a valid response of relation for both countries in the context of trade relations.

9/11 diplomacy strengthen the working and bonding of both countries. The bilateral aid packages and support of international financial institutions increase the relations between both countries. The said economies also signed a trade and investment framework agreement in 2004, and that remained a successful model for both countries. In addition to this, there is also a geopolitical alliance of US-Pak historically, and there is a solid history of free trade agreements and investment for both countries. The working of these countries is also found success in the ford foundation and GE foundation on different projects.

Trump administration sustained cooperation with Pakistan to face the challenge of COVID-19 which drastically changed the economic scenario and in relaxing loan payments through the support of the International monetary fund, apart from that Pakistan government also developed ties with the US and got successful support in improving its credentials with FATF and levelling best to come out from the grey list. US administration joined and lauded Pakistan over the stability of region and Pakistan should be self-sustained by taking different steps against terrorism on the larger interest world.

The trade liberalization is unavoidable for China and Pakistan for the development of both countries as according to WTO conditions member countries are free to join trade agreements for the diversion of trade. Trade is very necessary due to different economic and political structures. Different countries have different specialization in goods and services. Pakistan is also trying to set the directions of trade policies actively since last two decades. Bilateral relation between China and Pakistan is not only beneficial for the region but also for the development of the world economy. Good economic and political working is very necessary for the growth and development of any nation as we know that the export competitiveness of countries is increasing at very high speed on the basis of new technology and innovation. China is a very good position in emerging economies in the aspect of revolutionary policies and comparative advantages patterns at local and

international level. Pakistan has a dire need and strong potential for fast growth in the socio-economic position of modernization and to remove hindrances for the advancement of the economy.

Pakistan and China share borders and cordial relationship to make the bond strong on free trade agreement since 2006 and 2007. The deal is based on two phases, one from 2006 to 2012 and another phase started in 2013 and yet going on. On the conditions of two different economies, the growth of world trade is different for both economies individually because China has more relative competitiveness. China has given many opportunities to Pakistan regarding tariff concessions, flexible exchange rate, favourable pricing, variety of products and services and high custom relief. China has made many commandments with Pakistan to decrease the US influence in the region. Major share of fruits of investment will be spent on transportation, infrastructure and energy that will create a positive impact on sustainable growth, alleviating poverty, inflation challenges and fostering technological innovation. No doubt, China is providing a reasonable timing to negotiate the terms and condition for free trade agreements to benefit both economies. In contradiction to this, the US have some strict conditions for the economy of Pakistan. Speaking from Pakistan trade side there should be renegotiations for agreement with the US because the largest share of imports is still dependent on our economy. On the other hand, different products from Pakistan top exports are imported by China from the world, and Pakistan does not get its foundation in China's market due to a lack of quality standards. China has also created many threats for Pakistan industries from semi-products to final products in different industries.

US and China

President Donald J. Trump, who before becoming president of the US, was continuously criticizing China's trade practices. In this regard, he gave several statements, i.e. on 21st September 2011, he tweeted that China is neither an ally nor a friend – they want to beat us and own our country. Another statement he gave on 2nd May 2017, while campaigning for the Republican Party's presidential nomination, said we could not continue to allow China to rape our country and that's what they are doing. It is the greatest theft in the history of the world [\(China Briefing, 2014\)](#). However, in between 2011 and in January 2017 many times talks held between two countries (US and China) regarding resolving the trade differences, and the Chinese president visited Trump's Mar-a-Lago estate in Florida, both were agreed to set up a hundred Day Action Plan, to some extent, they were agreed, and their tension relaxed, but once again this tension raised when both countries imposed tariff against each other in 2018. On 23rd March 2018, the United States imposed a 25% tariff on all steel imports except from a few countries, i.e. Argentina, Australia, Brazil, and South Korea, and a 10% tariff on all aluminium imports except from two countries namely Argentina and Australia. Similarly, on the very next month April 02, 2018, China reacted and, imposed tariffs in between 15% to 25% on 128 products including fruit, wine, seamless steel pipes, pork, and recycled aluminium of (worth US\$3 billion) in revenge to the US' steel and aluminium.

Furthermore, the trade dispute between the two countries further deepened when the United States imposed an additional 25 % tariff on imports from China. The amount of tariff imposed from China has a value of dollar 50 billion in July and August at the

ratio of dollar 34 and dollar 16 billion in July and August 2018 simultaneously, from which the share of imports of the USA is dollar 50 billion. China imposed an extra amount of dollar 60 billion on US imports from which the USA amounted to 10 per cent taxation on China's imports at 10 per cent share, which becomes 25 per cent in January 2019 which was completed in May 2019. In addition to this, there is a blockage of exchange in December 2018 and May 2019 as after the G20 summit in June 2019. It can be clarified that the span of 2018 and 2019 will be to encourage the incremental values ([Ken Itakura, 2020](#)). The people of America had voted for Donald Trump with the intention that he would bring reforms in each sector and make strong foreign relations with the world countries, but despite making good relation with world countries, he started the war and took actions against Russia, Turkey, Iran, India and EU ([China Briefing, 2014](#)) which has adversely damage trade, investment and diplomatic relations with world countries generally and China particularly by sanctioned tariffs on solar panels, steel, aluminium, etc., from most trading countries and, imposed series of duties on Chinese goods. The Chinese government responded it, leading to the trade war. In this regard, several research studies have also been conducted, i.e. ([Amiti et al. 2019, 2020](#); [Cavallo et al. 2019](#)) said the tariffs that have been imposed by the President of the United States on China its cost is bearded by the consumers and financial units in the USA. Another study was conducted by ([Fajgelbaum et al. 2020](#)) found that due to tariffs, the US has bearded a welfare loss of 51 billion US dollars. Jim Rogers co-founder of the Quantum Fund and Investment guru says trade wars are always bad for everyone ([Dawn, 2018](#)). [Kerry Liu \(2020\)](#) analyzed the impact of the China and US trade war on Chinese currency (Renminbi), bilateral trade, and stock markets by using google trends data from January 2018 to December 2019, found that there is no effect on Chinese goods trade surplus whereas has reduced the imports of US goods. Secondly, it found that war affects sales and profit.

Pakistan and the US-China Trade War

As Pakistan is the most important partner of both countries because it is maintaining its sustainable relations with both nations since its existence? Due to sustainable relations with both countries, China launched a big financial project (CPEC) of US 46 billion dollars in 2013, and now it has reached approximately 70 billion US dollars. Whereas, the United States imports a lot from Pakistan. In 2019-20 (July-March), Pakistan exports to the US was Rs. 471 billion, whereas exports to China in the same period of time were Rs. 219 billion, whereas Pakistan imports from the USA were Rs. 692.6 billion, whereas imports from China was Rs. 1394.3 billion ([Economic Survey of Pakistan, 2020](#)). Osama Rizvi an economic and geopolitical analyst says, for Pakistan, this economic tussle between the two largest economies is very significant because both nations are one of Pakistan's largest trading partners ([Propakistani, 2019](#)). He further says Pakistan is diplomatically engaged with China in the firm of CPEC which has a large benefit for Pakistan. Pakistani business community leaders say that the trade war between the world two largest economies (the USA and China) could be benefited for Pakistan. In present circumstances, Pakistan has an opportunity to renegotiate the terms of future investment and bilateral trade of China with Pakistan. Pakistan Business Council Chief Executive Officer says Pakistan has become more competitive than China in some areas such as textiles. Paul D. Miller (2012) says that the US and Pakistan trade links have been growing over the past decade, Pakistan needs America

as a trading partner more than the US needs Pakistan, in 2003 both countries signed bilateral Trade and Investment Agreement through which bilateral trade increased from US\$2.8 billion in 2001 to US\$5.8 billion in 2011. In 2010, the US was the top destination for Pakistan exports. In addition, he says Pakistani workers in the US contribute a sizeable portion of the US\$8.7 billion in remittances to Pakistan from the US and, in return American businesses account for US\$517 million of FDI in Pakistan, almost one-quarter of the total. If Pakistan fails to maintain such sustainable relations with the US than bilateral trade ties between both countries could be slow.

Objective of the Study

This research study attempts to explore that this trade war between the United States of America and China offer an opportunity for Pakistan to boost its exports to the United States of America and attract foreign direct investment from both countries into Pakistan.

Bilateral trade position of Pakistan and the United States

According to the economic survey of Pakistan (2020), United States is the Pakistan major trading partner, and it is the number one destination for Pakistan's exports. The US had developed a system of preferences to encourage economic growth in Developing and Least developed countries. However, the US had included 134 tariff lines of Pakistan in its GSP scheme in 2017 and, now it has further renewed till December 2020. In addition, the trade balance between the two countries has also increased since 2017. In 2017, Pakistan exports to the United States was US\$3,565,800 thousand, Imports US\$2,846,399 thousand and trade balance US\$719,401 whereas, in 2019, Pakistan exports to the United States increased and reached at US\$3,826,257-dollar imports US\$2,957,855 dollar and trade balance US\$868,402. It has been noticed that bilateral trade between Pakistan and the United States has remained in favour of Pakistan, and it is also expected that this trade will also remain in favour of Pakistan. The following table depicts the position of bilateral trade from 2017 to 2019.

Table 1. Bilateral Trade Position between Pakistan and the United States US Dollar Thousand

Year	Exports	Imports	Balance of Trade	Total Exports of Pakistan	% Share in Total Exports	Total Imports of Pakistan	% Share in Total
2017	3,565,800	2,846,399	719,401	21,911,598	16.3	57,518,651	4.95
2018	3,826,257	2,957,855	868,402	23,778,621	16.1	60,391,133	4.89
2019	4,042,271	2,614,705	1,427,566	23,818,817	17.0	50,134,812	5.21

Source: Trade Map

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 percent share of Pakistan in US's exports was 16.27 in 2017 which increased

up 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 2. Role of Pakistan and the US in Each Other's Exports and Imports

Year	% Share of Pakistan in US's Exports	% Share of Pakistan in US's Imports	% Share of US in Pakistan's Exports	% Share of the US in Pakistan's Imports
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 3. Share of Pakistan and US in World Trade (2017-2019)

Year	Pakistan			US		
	Exports	Imports	Total Trade	Exports	Imports	Total Trade
2017	0.125	0.323	0.225	8.81	13.52	11.18
2018	0.123	0.306	0.215	8.63	13.27	10.97
2019	0.127	0.263	0.196	8.79	13.48	11.16

Source: International Trade Centre (ITC)

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. The following table shows the position of Pakistan and China bilateral trade.

Table 4. Bilateral Trade Position between Pakistan and China US Dollar Thousand

Year	Exports	Imports	Balance of Trade	Total Exports of Pakistan	% Share in Total Exports	Total Imports 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

Source: Trade Map

Role of Pakistan and China in Each Other's Exports and Imports

The following table depicts the role of bilateral trade between China and Pakistan. It shows that percent share of Pakistan in China’s exports was 6.89 in 2017 which increased up to 8.58 percent in 2019, and percent share of Pakistan’s in China’s imports was 26.78 in 2017 which decreased and reached at 24.78 percent in 2019 whereas, percent share of China in Pakistan’s exports was 0.81 percent which has decreased in 2019 and reached at 0.65 percent, and percent share of China in Pakistan’s imports was 0.10 in 2017 and has also decreased in 2019 and reached at 0.09 percent. This up and down in percent share has noted due to the US and China trade war.

Table 5. Role of Pakistan and China in Each Other's Exports and Imports

Year	% share of Pakistan in China’s Exports	% share of Pakistan in China's Imports	% share of China in Pakistan's Exports	% share of China in Pakistan's Imports
2017	6.89	26.78	0.81	0.10
2018	7.69	24.18	0.68	0.10
2019	8.58	24.78	0.65	0.09

Source: World Integrated Trade Solution (WITS)

Global Trade Profile of Pakistan and China

The following table shows the position of share of Pakistan and China 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 China share of trade in world trade has improved in the same period of time.

Table 6. Share of Pakistan and China in World Trade (2017-2019)

Year	Pakistan			China		
	Exports	Imports	Total Trade	Exports	Imports	Total Trade
2017	0.125	0.323	.225	12.93	10.35	11.63
2018	0.123	0.306	0.215	12.91	10.85	11.87
2019	0.127	0.263	0.196	13.35	10.86	12.10

Source: International Trade Centre (ITC)

Net Foreign Direct Investment from the U.S and China to Pakistan

The government of Pakistan has taken very concrete steps to enhance the Foreign Direct Investment in the country. Thus, Pakistan improved Ease of Doing Business Rank from 136 to 108 in the year 2019. In addition, the government has announced various incentives at a national and international level to attract the FDI, and it is providing a business-friendly environment, especially in Special Economic Zone. However, FDI from the US and China to Pakistan is depicted in the following table.

Table 7. Net Direct Investment from the United States and China into Pakistan (US\$ Million)

Year	United States of America	People's Republic of China
2016-17	45.7	763.2
2017-18	161.7	1,311.9
2018-19	88.1 (Jul-Jun FY19 (R))	130.8 (Jul-Jun FY19 (R))

Source: Board of Investment

Data

The United States of America phased in tariffs/duties on the People's Republic of China exports in four series. In the beginning, US tariffed 34 billion dollars of Chinese exports on 6th July 2018 (List No. 1), 16 billion dollars on 23rd August 2018 (List No. 2), 200 billion dollars on 24th September 2018 (List No. 3) and 120 billion dollars on 1st September 2019 (List No.4). These four lists of goods have been collected from Sandler, Travis and Rosenberg Trade Report. Whereas, the export data have been collected from the International Trade Commission's DataWeb.

Methods

For each country, the following difference-in-difference equation is estimated:

$$y_{it} = \alpha + \sum_{l=1}^3 \beta_l I(l_i) + \sum_{p=1}^3 \gamma_p I(p_t) + \sum_{l,p=1}^3 \delta_{lp} I(l_i) * I(p_t) + \tau_t + \sum_{l=1}^3 \tau_l I(l_i) + \varepsilon_{it}$$

Where y_{it} is the 2019 dollar value of exports to US of an HTS 8-digit good, $I(l_i)$ are indicators for the control group, $I(p_t)$ are indicators for the post-implementation period, and δ_{lp} are the difference-in-difference parameters for each control group. Also, to account for non-parallel time trends across groups, it includes linear time trends for each list ($\tau_t + \sum_{l=1}^3 \tau_l I(l_i)$). As recommended by [Yotov et al. \(2016\)](#), regressions are estimated using Poisson Pseudo-Maximum Likelihood (PPML) method ([Santos Silva and Tenreyro 2006, 2011](#)).

Results & Discussion

Table 8 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%.

Table 8. Difference-in-Difference Effect of U.S. Tariffs on Exports to the U.S

Country	Δ	P-Value	N	R ²
China	-0.3862***	0.0001	144	0.9201
Pakistan	-0.0269***	0.0012		0.1839
India	0.3938***	0.0023		0.0123
Bangladesh	0.5033***	0.0011		0.1926

*Robust standard errors level in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$*

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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