

US-China Rivalry

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In the US-China conflict, the major conflict is economic conflict between the two countries.

Dimensions of Economic conflicts

1. Trade War
2. Currency war
3. Geo-economic conflict

US products are unable to compete in the international market. Why is that so?

- China has replaced the US as a leading trade partner in a number of world markets. For example in the African region, South American countries, the Middle East, and ASEAN countries. It is also the second largest trade partner of Europe, India, Japan, etc. And will be the largest trade partner of Europe in the near future.
- US products are not only unable to compete with Chinese products in the international market but also in the US's local market.
- This is because of cheaper production costs of Chinese products. Chinese products are far cheaper in price as compared to USA's products. Factors contributing to cheaper cost are:
 1. Labour – Chinese labour is cheaper
 2. Ratio of taxes in China is low compared to US
 3. Price of the Chinese currency Yuan is lower. China produces its products in Yuan but sells them in the international market in dollars.
- This has enabled China to be the world's largest producer and exporter. It is the country with the highest trade surplus in the world. While US has a trade deficit
- China has the highest foreign reserves, more than 3 trillion dollars
- China has surpassed US in purchasing power parity (replaced US in 2016)
- China has given 1.5 Trillion dollars + loan to US

- This is the reason for an economic rivalry between the two countries

Trade war between US & China

- To understand trade war it is important to understand positive and negative lists.
- Every country while trading with the foreign world maintains 2 lists
- **Positive list:** list that mentions products that are allowed for import. But the proportional ratio of tax varies from product to product and country to country
- **Negative list:** contains those products the import of which is not allowed.

Free trade and protectionism (both are opposites to each other)

- **Free trade:** Removal of the tariff (taxes) and non-tariff barriers (negative list)
- **Protectionism:** Imposing higher tariff and non-tariff barriers
- US-China have entered the largest trade war of the century:
 - 2017 onwards Trump started imposing higher taxes on Chinese products.
 - In the first phase 100 billion USD worth goods were heavily taxed
 - In the phase second & third, 130 billion USD each good were heavily taxed
 - In the fourth phase, around 60 billion USD worth of goods were heavily taxed
 - Overall, more than 400 billion USD of Chinese goods were heavily taxed
 - Firstly Huawei was taxed
 - Secondly, electrical equipment like solar panels, washing machines, refrigerators etc
 - Electronic goods -were heavily taxed
 - Steel and aluminium goods were heavily taxed
- China retaliated
 - In the first phase 60 billion USD and in the 2 & 3rd phase 30 bn \$ each
 - It firstly targeted agri-goods
 - It then targeted luxury goods, for e.g. private jets, helicopters, ships, etc. its biggest target was Apple phones and laptops which has its largest user base in China

Why did the US do this?

1. **To reduce its trade deficit.** In 2017-18 its trade deficit was USD 635 billion, and of this, with China alone worth 300 billion USD.
2. **To revive the local industry** – American products were unable to compete with Chinese products in the local market of the USA because they were cheaper in prices as compared to American products. Resultantly, the US had to impose higher taxes on Chinese products. This increased the prices of Chinese products in American markets and their import was discouraged because of higher taxes.
3. **Trump blames China for being involved in intellectual theft. It copies American products/ technology and produces them at cheaper prices and sells them out to the world esp. US. So unless and until the US does not stop intellectual theft, till then higher taxes will remain imposed on Chinese products.**

Why did China do this?

1. China imposed higher taxes in US products in retaliation.
2. Free trade suits China more and more because it is a cheaper producer and has become the leader of free trade in the world.
3. China targeted the agricultural goods of America firstly. Secondly the luxury goods and thirdly the constituencies where trump had won in got imposed highest taxes.
4. 200 billion USD worth of import to US by China was affected

Implications:

1. Trade deficit reduced
2. Revival of the local industry – as consumption of local produce increased
3. Set back the US agricultural sector because China is the biggest importer of US agricultural goods which it stopped.
4. US importers were badly affected.
5. US-China trade in 2020: 615.2 billion USD. Of this, China exports comprised 450 billion USD plus to the US. Whereas US exports to China were only 164 billion USD. So US-China trade was in China's favour. The ratio was 4:1.

Impacts on China:

1. Decline in exports of China by USD 200 billion. This resulted in a decline in China's foreign reserves.
2. Set back to industrialists and producers.

Impacts on global political economy

1. Revival of protectionism.

How?: the world's two largest trade partners imposed tariff barriers on each other. Not only that, the US imposed higher taxes on European products, Japan, ASEAN countries, India, Canada, Turkey, etcetera. In return all these countries retaliated.

2. China's increasing penetration into world markets.

How?: After the US imposed higher taxes on Chinese and European products then a China-Europe trade deal took place. The US pulled out from the Trans Pacific Partnership (TPP) (15 countries including US), and China entered RCEP with these 14 countries. Europe & TPP countries are closest allies of US and now china is penetrating into them

Currency War between China & USA

Dimensions of currency war:

1. **CSA – Currency Swap Agreements:** to replace the dollar as an international trading currency China has entered into a currency swap agreement with 34 countries in the world. This means that the future trade of China with these countries won't be in USD. This includes China
 - a. EC-China trade: Euro vs Yuan
 - b. Russia-China trade: Rubble vs Yuan
 - c. Pak-China trade: PKR vs Yuan
2. **China wants to end the dollar hegemony.** International trade is predominantly carried out in the US which China is trying to end through CSAs. It is also entering into Petro Yuan agreements to end the dollar hegemony:

- In the 1970s Petrodollar agreement took place. This dollarized international trade. This agreement took place between the USA (biggest oil producer in the world) and USA. Next up, GCC countries announced to conduct their oil trade in dollars. It was announced on the platform of OPEC (organization of oil producing countries) the international oil trade will be conducted in dollars. Oil being the largest trading commodity, oil got dollarized automatically other countries also dollarized their trade.
- China is trying to enter into a petri yuan agreement with Iran. Iran over-dependently relies on China so it can enter into this.
- Russia will not prefer the petro yuan agreement as this will give rise to Chinese leadership and it will continue CSAs. Real test will be when KSA enters into CSA with China as its chances are really slim, US being a close ally of KSA.
- **Dollar disposed off policy:** China has adopted a dollar disposed off policy. This game was launched by the Chinese citizens and the state was not directly involved. How: dollars were invested in gold, real-estate and different other areas. This created a temporary shortage of dollars that resulted in a price hike of dollars. This benefitted China and the ill-fitted US.

China prepares products in Yuan and sells them in dollars, this increases China's exports. China buys in dollars and sells in Yuan. Automatic reduction in China's imports.

Vice versa impact on the US. US imports and exports in dollars. Because the dollar's price increased, its import increased and export decreased.

Example: we have to export mobiles to the US. They were produced for 10,000 PKR. If its price is USD 100. We are spending PKR 10,000 but the dollar price would be increased.

BRI

BRI comprises of 6 corridors:

1. CARS, Russia, Europe
2. China-Azerbaijan-Georgia-Turkey- Europe
3. China-CARs- Iran
4. Cpec
5. China-ASEAN

6. China-India- Bangladesh-Myanmar corridor

- Biggest investment is in transport sector like: 26 sea ports, bullet train projects, motorways and highways:
- Investment in energy sector: especially in Caspian region (countries near Caspian sea like Russia, Iran etc)
- Middle east
- Economic zones: e.g. 10 EZs will be developed in Pakistan
- Investment in agriculture:

What are China's objectives?

Shorter access to the market:

- China has 1 major trade route and that is the East-China sea comprising the south-China sea, Bay of Bengal, Arabian Sea, Persian Gulf, and African region. It is phenomenally lengthy as it takes a Chinese ship up to more than 49 days to reach England from Shanghai(seaport of China). It would take 7-11 days via the China-Europe Corridor and the distance would be reduced by more than 20000 kilometres.
- It takes a Chinese ship more than 36 days to reach Saudi-Arabia(middle-east) from Shanghai. Via C-pack it takes a maximum of 11 days and the distance will be reduced by more than 12000 kilometres minimum. After Europe, the most important market for China is the Middle-east, Iran, and the African region in the context of the import of hydrocarbons. So the shorter access is the prime priority of China from BRI.
- BRI has done a tremendous cut in transportation costs. The second benefit is quick access to the market – rapid access and quick delivery of the product.
- Shanghai to Europe 49 days
- China – Europe corridor – length will be 11 days maximum, distance will be shortened 12000 km
- China – KSA: travel takes 36 days, through CPEC it will take 11 days and distance will be shortened by 12000 km.
- Alternative trade route system:

- o East China Sea
 - o South China Sea
 - o Bay of Bengal
 - o 84% trade passes through arabian sea
- Alternative routes for the world for EU, Africa, Asia, this will result with reduced dependency on sea routes
 - **2: Alternative Trade Route System:**
 - BRI would be an alternative trade route not only for China but for the three continents, Asia, Europe, and Africa. These three continents would be linked through BRI. Also, different parts of Asia would be connected by BRI with each other. Almost 20 countries have been trading through the sea and the trade route has been controlled by the US since now. Once BRI gets operational, the three continents and different parts of Asia would be connected through corridors of BRI and the dependency of the Sea route will be reduced. Then China will become the world's largest trade controller.
 - China penetrates in the world markets increasingly, especially with US allies. For e.g. Philippines, Vietnam, Malaysia, Europe, etc.
 - China influences the decision-making process of BRI countries in its own favour through investment diplomacy.
 - This will cause a direct back to the US.

Geo-strategic competition between US & China

- **Encirclement of China by USA:**
 - o Strategic partnership of US with the rivals of China: Australia, Japan, India
 - o Example of relations with India:
 - Civil-nuclear deal;
 - Installation of defence industries in India;
 - Naval alliance between India -USA
 - US is doing this with India to contain China in the Indian ocean region

- **US naval installations in:**
 - Okinawa naval base near Japan
 - Guam near Japan
 - Diego Garcia
 - Seventh naval fleet of US is in East China Sea
 - Fifth naval fleet in Persian Gulf
 - US naval fleet in Strait of Malacca (near Malaysia from where 84% of China's trade passes by)
- **US air bases:**
 - 5 bases in the middle east, Jordan, Oman, Qatar
 - Base in South Korea
 - Base in Japan
 - Biggest base in Australia
 - These bases exist to contain China
- **US-Asia Pivot Policy (China Related)**
 - China's encirclement
 - The US supports ASEAN countries on their claim on the islands of South China Sea. According to International law of sea/ maritime law, up to 200 nautical miles ahead in the sea is the exclusive economic zone of the coastal country. These countries are claiming their ownership and the US is supporting them.
 - US supports Japan regarding its claim on the islands in the East China sea
 - To counter BRI US has launched B3W (build back better world) 7 countries, planning to invest 7 trillion dollars on this project)
- **China's Policy towards the region**
 - China declared all the islands in the South and East China sea as its sovereign territories.
 - This means that any kind of military intervention will be strongly retaliated
 - China's claim is on the basis of a 9 dash line on the basis of history. China claims that the old Chinese empire used to comprise these islands.
 - The 9 dash line is an imaginary line drawn by China on the East & South China sea and claims that all territories within the 9 dash line belong to China.
 - China has also heavily militarized the South and East China sea through warships, submarines, aircraft carriers, and air bases.
 - China has also built artificial islands in the south China sea (7 in total). This means that China has done sea filling for:

1. To establish air bases

2. To extend the maritime right of China

- **Strings of Pearl Policy of China**

- ii. Construction/ development of seaports across Asia and Africa (26 seaports).
- iii. Increasing military installation in Asia & Africa. For E.g. in Sudan, Sri Lanka, Myanmar. Expected in Gwadar, Chabahar seaports.

- **Peaceful Socio-economic Rise:**

- i. Through BRI
- ii. Engaging policies with regional and global powers for trade, investment, providing loans to US, Europe, and to minimize their intentions of war against China. This is also with ASEAN, Japan,
- iii. China is striving to reduce intensity of conflicts/ chances of war through economic diplomacy
- iv. Winning over allies of US in the regions, for e.g. Philippines, Vietnam, Malaysia
- v. Curtail India's role in South Asia by winning over India's allies for example. Bangladesh, Nepal, Afghanistan, Iran (not a part of South Asia)