Vol. 4, Issue I, 2025 (January – March)
International Journal of Politics & Social Sciences Review (IJPSSR)
Website: https://ijpssr.org.pk/ OJS: https://ojs.ijpssr.org.pk/ Email: ijpssrjournal@gmail.com
ISSN 2959-6467 (Online) :: ISSN 2959-6459 (Print)
ISSN 2959-6459 (ISSN-L)
Recognized by Higher Education Commission (HEC), Government of Pakistan

US-China Trade War: Economic Implications on South Asia

Marwa Riaz[1], Ahmad Raza[2], Zaheer Ahmed[3] & Dr. Imran Wakil[4]

[1] M.Phil. Scholar, Department of International Relations, Government College University Faisalabad
Email: rrkkmarwa09@gmail.com
[2] M.Phil. Scholar, Department of International Relations, Government College University Faisalabad
Email: ahmadwaince007@gmail.com
[3] M.Phil. Scholar, Department of International Relations, Government College University Faisalabad
Email: malik.zaheer.ahmed@gmail.com
[4] Assistant Professor (OPS), Department of International Relations, Government College University Faisalabad
Email: imranwakil@gcuf.edu.pk

Abstract

The bilateral US-China trade conflict has profoundly altered the Trade features of the entire global economy and bring prospects and risks for the South Asian region. This article aims to examine the complex effects of the trade war on the concerned area: The first section provides a background of the trade war; when it started and the main conditions of the war, which are tariffs, trade deficit, restrict ions on technology, and countermeasures. It situates the South Asia's economic relationship mapping of countries like India, Bangladesh, Pakistan and others discussing their trading partners with US and China and presence as a supply chain node. Trade effects are discussed, emphasizing trade diversion, which promoted exports in textiles and electronics; other effects relate to potential growth of the FDI as a result of where companies turned away from China. However, problems such as supply chain disruptions, and reliance on Chinese imports were witnessed as some of the main bottlenecks. These are geopolitical shifts, assertiveness/engagement of South Asia in the Indian Ocean strategy/Indo-Pacific strategy and increments in regional commerce through SAFTA apart from issues affecting the region such as inflation, volatility of currencies, and competition between SAFTA members. It gives more specifics by the country such as technology and pharma industries in India, textiles in Bangladesh, and economic issues of Pakistan in terms of CPEC. It reinforces the need for regional integration all through SAARC and BIMSTEC, the policies to be formulated for infrastructure growth, and with world bodies like WTO. With strategic recommendations at its end, it focuses on removing structural constraints and realizing opportunities that would help South Asia become a competitive region in global trading system in the post-trade war scenario.

Keywords US-China Trade War, South Asia Economy, Trade Diversion, Geopolitical Realignments, Regional Cooperation.

Introduction

The US-China trade war being a long-standing economic tension between two most substantial economies in the world is considered peculiar to a new form of trade friction in the twenty-first century. With roots in trade deficits, piracy, and technology dominance, this war impacts trade regulation, supply network, and traditional geopolitical bipolarity all around the globe. These impacts are quite visible for developing countries, including those of the South Asian region that are located in the middle of emerging global trading and economic strategies. It is crucial to know how this trade war started, what led to it, and what has happened in the world economy so that the effects of this trade war on the South Asian economies, investment, and geopolitics could be fully understood (Itakura, 2020).

The trade war between the United States and China has its origin from as far as alleged unfair trading practices, and trade deficit. The United States had been using the fact of its trade deficit with China, which reached $375 billion in 2017, as evidence of the existence of systematic unfairness in bilateral relations. This shortfall together with more claims of compelled technology transfer and additionally theft of IP by Chinese firms turned into a focus for policy makers in Washington. It worsened early in 2018 when the US government placed tariffs on Chinese goods and products, worth several billion, arguing that they posed threats to their national security and economy. China immediately responded with retaliatory tariffs escalating the issue to a continuous cycle of trade tariffs in the years that followed (Fajgelbaum & Khandelwal, 2021).

Trade war map shows how the war started and the fact that it was not a straightforward event. The first salvo contained sectors like steel, aluminium, technology but the conflict was escalated rather quickly. Till 2019, effectively these tariffs have been placed on more than $ 500 billion of goods disturbing products falling under farming sector to consumer electronics. These encompass the tariffs under Section 301 of the Trade Act of 1974 and the Phase One Trade Agreement entered in January 2020, which while aiming to de-escalate the conflict, left most fundamental issues unsolved. As both sides sat down to negotiate, the basic conflict of American and Chinese strategic interests, along with fundamental differences in economic systems entailed that the trade war remained alive (Tam, 2019).

Current and future effects of the trade between USA and China have affected other countries and also created poor investors' sentiment around the world. One of the counters during ramifications was disruption of global value chains or more specifically industries that highly relied on Chinese manufacturing. The multinational firms experienced higher costs because of tariffs and strove to change their supply chain operations which moved to Asia, Vietnam or Mexico and some nations in South Asia including India and Bangladesh. European shares fluctuated as investors responded to worsening tensions, and the International Monetary Fund's forecasts of world economic expansion were reduced. The IMF explains the damage done by the trade war, noting that it slashed about 0.8 percentage points from global economic expansion in 2019 only.

This paper has analysed how South Asia, economically diverse and strategically located, has been impacted by the trade war in specific ways. The region is a blend of new and a bona fide economy that has different trade characteristics and risks. India which stands as the largest economy in the South Asian region has taken an opportunity to rival China during the trade war dispute. India is the fourth largest market for overseas manufacturing investors mainly due to it has large employees' fewer risks associated with Chinese suppliers and suppliers because it has offered more incentives to overseas suppliers for FDI. Bangladesh famous for apparels has also gained from improved export outlet owing to discordance search by American buyers. However, the region's dependence on China for the Imports of raw materials and intermediate goods have been an issue, thus has manifested the trade war effects in two folds.

Investment decisions to the south Asia region have been shaped by the agonizing decisions of both the US and China during the trade war. When the US was trying to contain China's rising economic clout, it boosted both economic and security cooperation with South Asian nations. This has been due to actions like Strategic bilateral relationship between the US and India as well as investments to strategic infrastructures. China's Belt and Road Initiative (BRI) on the other hand has remained active in South Asia; investing in Pakistan, Sri Lanka and Nepal and others. While these investments may have brought infrastructure development which was sorely needed, they have also offered debt disequilibrium and geopolitical risks.

It has also identified South Asia as a theatre for the overarching struggle between the US and China through the trade war. This is due to the location of the region being a focal ground for interaction between the Middle East on one side, East Asia and the Indian Ocean on the other: a factor that defines a geopolitical competition between these two prominent powers. Thus, today the countries of South Asia have felt pressures of both US and China seeking to strengthen their spheres of influence. For instance, CPEC which connects China with Gwadar of Pakistan requires attention of the US while India's closeness to the US had led Chinese forbidding steps. These dynamics explain why South Asia is so bitterly entangled in the trade war, geopolitically.

The following is an attempt to appraise how the US–China Trade War has affected South Asia: benefit and threats. On the one hand, the region has potential to benefit from the shifts of trade and investments in search for new destinations not in China. The consumer markets, low cost and competitiveness of Labor as well as the geographical advantage of South Asia add to its appeal for manufacturing and investments. The region is also vulnerable because it relies on China for import of goods and capital investments. Hindrances to supply chain, increase costs of imported products, and geopolitical threats that could erode advantage of trade war for South Asia.

In conclusion, US- China trade war has had a profound new alter the contemporary global economic and Geo-political architecture with far-reaching Regions in south Asian region. When managing this conflict, the region needs to identify the opportunities for gaining from the conflict while managing any adverse effects. Business and trade relations, investment plans and economic alignment will define the position of South Asia in the new emerging world. As shall be seen in this paper, it is imperative to appreciate the interdependence between trade, investment and power politics as a way of comprehending the manner in which the US- China-trade war affected the South Asian region largely (Ongan & Gocer, 2020).

Statement of the Problem

The US-China Trade War has disrupted global trade flows and created significant shifts in economic dynamics, affecting regions worldwide, including South Asia. As the world's two largest economies-imposed tariffs and restrictions on each other, the resulting trade diversion, supply chain disruptions, and geopolitical realignments posed both opportunities and challenges for South Asian countries. However, the region's ability to capitalize on these shifts has been constrained by structural barriers such as inadequate infrastructure, dependency on Chinese imports, and limited regional cooperation. This raises critical questions about how South Asia can navigate these challenges, leverage emerging opportunities, and enhance its role in the evolving global economic landscape. Understanding the direct and indirect impacts of the trade war on South Asia is essential to developing strategies that promote sustainable economic growth and regional integration.

Literature Review

The trade war between US and China requires attention and hence scholars have carried out numerous studies in attempting to understand the core and the spillovers effects for country and region, including South Asian countries. Bown [2019], in the article the "The 2018 US-China Trade Conflict After 40 Years of Special Protection", sums up the policy of tariffs of the trade war and shows how these interferences have created opportunities for other countries, such as India and Bangladesh to enhance exports to the US market. The focus of the study is on the changes of global production networks and the possibility of South Asia gaining from trade diversions while facing infrastructural constraints (Bown C. P., 2019).

In their paper "Emerging Markets in the Shadow of the US-China Trade War" published earlier in 2020 Basu and Banik illustrated the emerging markets in the south Asian region and the constraints brought about by the trade war. They posit that despite the fact that the region hosts multinationals seeking to transfer their production for cost advantage, the issues of governance, supply chain, and inconsistent policies hinder these economies from optimising on the trade unwind.

Saha and Palit (2021), in their article "Economic Opportunities and Geopolitical Realignments: The geopolitical prospects of the trade war and the effects on the South Asian economies are discussed in the articles "US-China trade war takes a toll on economies in South Asia. The authors also state that India stands in a good place to deepen the trade relations with the US especially in the technology sectors while Pakistan is in a difficult situation because of its dependency on China for most of its needs.

Rahman et al. (2022), in "Trade Diversion and Export Growth: Textile and Apparel Industry: Ghost of Protectionism – The phenomenon, while using earnest justification supported by empirical data can show how trade war have been beneficial for export sectors, especially textile and apparels in South Asia. According to them, Bangladesh has been a main benefactor due to affiliate assembly advantage and the ASEAN FTA which show although there is a cut-throat competition from ASEAN countries.

Hasan (2019) in his article "Geopolitical Trade War and South Asia: Challenges and Opportunities for South Asia". The article discusses how outsourcing companies have moved their supply chains in different parts of the world making multinationals consider relocation to South Asia but warns that this has to be done within the context of addressing problems like creaking infrastructure, lack of policy stability, energy constraints. Singh also mentions that there exists the possibility for regional cooperation within the South Asian nations in order to tackling these barriers and unlocking all the possibilities that would be brought by the trade war.

Additionally, Ahmed and Chowdhury (2023), in their article "The Impact of Global Trade Wars on Developing Economies: The last, but not the least, in the “South Asia” series provide insights into the impact of the trade war on regional stability. They noted that for some countries the export growth has been apparent for several years, for others – such as Pakistan and Sri Lanka – it was not the case because they were already ‘structurally’ in trouble. According to the study, it is required to strengthen the trade and economic relations and undertake economic liberalization to achieve fair cooperation within the region.

Research Questions

1. How has the US-China trade war affected South Asia's economic growth and trade balances?
2. In what ways has the trade conflict altered South Asia's trade and investment relationships with major global markets?
3. What sectors in South Asia have experienced growth opportunities or challenges due to the trade war?
4. What policy adjustments could South Asian countries adopt to manage the impact of the US-China trade war?

Methodology

This research will employ a **mixed-methods approach**, integrating both quantitative and qualitative data to provide a comprehensive assessment of the impact of the US-China trade war on South Asian economies.

Quantitative Analysis:

1. **Data Sources**: Quantitative data on trade balances, foreign direct investment (FDI) inflows, and GDP growth rates will be collected from reliable sources, including the World Bank, International Monetary Fund (IMF), and United Nations Conference on Trade and Development (UNCTAD). This data will provide a foundation for examining macroeconomic trends in response to the trade conflict.
2. **Data Analysis**: Statistical analyses, such as regression analysis, will be conducted to assess correlations between the trade war and changes in trade balances, FDI inflows, and economic growth across key South Asian economies (India, Pakistan, Bangladesh, and Sri Lanka). This will allow for a quantitative evaluation of the trade war's measurable effects on the region.

Background of the US-China Trade War

The US-China trade war, which began in earnest in 2018, represents one of the most significant disruptions in global trade in recent history. It is characterized by a series of escalating tariffs, trade barriers, and political tensions between the world’s two largest economies, profoundly affecting global economic dynamics. The trade war’s origins lie in longstanding grievances about trade imbalances, intellectual property theft, and geopolitical rivalry.

The timeline of key events begins in March 2018, when the United States, under the Trump administration, imposed tariffs on steel and aluminium imports under Section 232 of the Trade Expansion Act, citing national security concerns. Shortly thereafter, the administration unveiled tariffs on $50 billion worth of Chinese goods, targeting products related to Beijing's "Made in China 2025" initiative, which aimed to establish China as a global leader in high-tech industries. In retaliation, China imposed tariffs on American agricultural products, automobiles, and other goods, signalling the start of a tit-for-tat trade conflict.

The trade war escalated in mid-2018 when the US levied additional tariffs on $200 billion of Chinese imports, prompting Beijing to respond with tariffs on $60 billion of US goods. By 2019, the dispute extended beyond tariffs to technology restrictions. The US imposed export bans on Chinese tech companies like Huawei and ZTE, accusing them of intellectual property theft and posing national security threats. These measures exacerbated tensions, with China retaliating by targeting US tech companies operating in its market.

One of the main issues fuelling the trade war is the significant trade imbalance between the US and China. For years, the US has run a large trade deficit with China, importing far more goods than it exports. The Trump administration sought to address this by imposing tariffs to reduce imports and encourage domestic production. However, these measures also increased costs for American businesses and consumers.

Another major issue is technology restrictions and intellectual property concerns. The US accused China of unfair trade practices, including forced technology transfers, industrial espionage, and state subsidies for high-tech industries. These allegations were central to the US administration's decision to impose additional tariffs and restrictions on Chinese companies.

Political tensions also played a significant role. The trade war was not just about economics but also about the broader geopolitical rivalry between the two nations. The US sought to counter China's growing influence in global markets and its strategic initiatives like the Belt and Road Initiative (BRI), which aimed to expand China's economic and political reach.

Both countries implemented various economic policies and retaliatory measures during the trade war. The US relied heavily on tariffs, targeting a wide range of Chinese goods, and restricted Chinese investments in critical industries. China, in turn, imposed tariffs on US goods, devalued its currency to make exports more competitive, and sought to diversify its trade relationships by strengthening ties with other regions, including Europe, Africa, and South Asia.

The trade war reached a temporary truce in January 2020 with the signing of the "Phase One" trade deal. This agreement required China to increase its purchases of US goods and services and address intellectual property concerns. However, many tariffs remained in place, and the underlying issues remained unresolved, leading to continued uncertainty in global trade.

Overview of South Asia's Economic Landscape

South Asia, home to over a quarter of the world's population, comprises a diverse group of economies, including India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, and the Maldives. The region has emerged as an important player in global trade and supply chains, driven by its large Labor force, competitive manufacturing base, and growing consumer markets. However, its economic landscape is marked by significant disparities and challenges that influence its ability to navigate global trade disruptions, such as the US-China trade war.

The key South Asian economies vary in size, structure, and dependency on external trade. India, the largest economy in the region, is a global hub for information technology, pharmaceuticals, and textiles. It has a diversified trade portfolio, with significant exports to both the US and China. India has benefited from trade diversification during the US-China trade war, as companies sought alternatives to Chinese suppliers and markets. However, challenges such as infrastructure deficits, regulatory bottlenecks, and an overreliance on imports for critical goods like electronics and machinery remain significant obstacles (Park et al., 2021).

Bangladesh, known for its robust garment industry, is one of the leading exporters of textiles and apparel globally. The trade war presented opportunities for Bangladesh to increase its exports to the US, as American companies sought alternatives to Chinese manufacturers. However, the country's dependence on imported raw materials, much of which comes from China, exposed vulnerabilities in its supply chain.

Pakistan has a mixed economic structure with a focus on agriculture, textiles, and remittances from its diaspora. While the China-Pakistan Economic Corridor (CPEC), a flagship project under China's Belt and Road Initiative, has brought significant investments, it has also increased Pakistan's economic dependence on China. The trade war created limited opportunities for Pakistan to benefit from trade diversion, as its industrial base faces competition from more established exporters in the region.

Sri Lanka has a relatively small economy focused on textiles, tea exports, and tourism. The trade war's impact on Sri Lanka was indirect, as its trade dependencies on the US and China are smaller compared to larger economies in the region. However, the country's strategic location in the Indian Ocean has positioned it as a critical player in China's Belt and Road Initiative (Li et al., 2020).

Nepal, Bhutan, and Maldives have smaller, more specialized economies that are less directly affected by global trade conflicts. These countries rely heavily on tourism, agriculture, and remittances, making them less integrated into global manufacturing and trade supply chains.

Trade dependencies on the US and China vary across South Asia. The US is a key export market for countries like India, Bangladesh, and Sri Lanka, particularly for textiles, garments, and IT services. China, on the other hand, plays a critical role as a source of imports for raw materials, machinery, and consumer goods. This dual dependency has created a delicate balancing act for South Asian countries as they navigate the trade war's uncertainties.

South Asia also plays a vital role in global supply chains, particularly in textiles, pharmaceuticals, and IT services. The region's competitive advantage lies in its large, cost-effective Labor force and growing domestic markets. For example, India is a major player in the pharmaceutical supply chain, producing generic medicines for global markets. Bangladesh and Sri Lanka are significant contributors to the global apparel supply chain, with major retailers sourcing their products from these countries.

However, South Asia's integration into global supply chains is constrained by infrastructure deficits, regulatory hurdles, and limited technological capabilities. The trade war highlighted these weaknesses, as supply chain disruptions and increased competition from other regions, such as Southeast Asia, tested the resilience of South Asian economies.

In conclusion, South Asia's economic landscape is both diverse and dynamic, with significant opportunities to capitalize on global trade shifts, such as those triggered by the US-China trade war. However, the region's ability to fully leverage these opportunities depends on addressing structural challenges, fostering regional cooperation, and implementing strategic economic policies to enhance competitiveness and integration into global trade networks (Kapustina et al., 2020).

Direct Economic Impacts on South Asia

Direct economic effects of US-China trade war have been the transformation of trade and investment structure of South Asia. In this paper, these effects have been seen principally in terms of trade diversion, shifts in supply chain mechanisms, and in changes to the structure of FDI – which have both offered opportunities as well as posed challenges for the region (Wu et al., 2021).

Trade Diversion

Perhaps the direst effects of the trade war include the re-routing of commodities since actors and countries sought for other markets which were not the Chinese or the US one’s. South Asia which includes India with cheap Labour and a growing manufacturing industry was identified to stand to benefit from this shift in trade. India, Bangladesh and Vietnam for instance have been able to raise their exports in the areas of textile and garments as well as electronics to the US market.

Bangladesh, especially, enjoys an increase in its textile as well as garments exports to the US during the trade war. When American retailers had to look for the outlets other than China, Bangladesh was ideal for apparel manufacturing as it was already a low-cost destination. With the help of the liberalization, the country’s garment industry, that was traditionally providing a large share of its export revenues, benefited, increasing its revenues and output. Nevertheless, such dependency on import inputs, which were dominated by China, proved operational hitches for continued growth.

As for the targeted diversified economy, India also saw growth in exports to the US market, especially in the categories including pharmaceuticals and constitutional, chemicals, electronics etc. Indian pharma firms, which command almost a quarter of the global generics demand, had it good in terms of supply chain disturbances in China. Furthermore, the electronics sector in India received new investors’ attention as manufacturers look for an alternative to China for electronics components and assembly. Nevertheless, the socio-economic opportunities available in the country were difficult to harness due to infrastructure vindictive various regulations and logistical complexities.

Pakistan and Sri Lanka, two other South Asian countries, had relatively small gains in terms of trade diversion. It is noteworthy that Pakistan’s textile sector has recorded a small increase in textiles exports to the US, however the export sector of this country is not very developed, and it suffers from a weak economic situation, which do not allow it to provide attractive flows of trade. Tea and garments such as high-quality apparel other than mass products experienced slight growth, and Sri Lanka is also one of them.

However, these gains underprove by the fact that trade diversion has not benefitted South Asia equally. Nations with comparatively less connected economies, located further from China such as Nepal, Bhutan, and the Maldives, did not have to suffer from direct consequences of trade wars which directly influence manufacturing supply chain. They relied more on tourism, agriculture and remittances and thus were not as affected by fluctuations in the international trade (Balassa, 2020).

Supply Chain Disruptions

This extended conflict influenced the localization of The US and China, breaking the supply chain traditions that most businesses had adopted. South Asia which relied on China in import of raw materials, components, and machinery was heavily affected in issues to do with continued flow of production.

The garment industry of Bangladesh suffered severe disruption as it sourced fabric and other materials from China dominantly. Trade tensions and tariffs were established as sources of problems that impacted manufacturers; in particular, they reported on delays of shipments and rise of costs of raw materials. In a bid to address such disruptions, some organizations started looking for other sourcing markets within South Asia or around the globe, but the process was gradual accompanied by various supply chain dysfunctions.

India did not remain immune to the impact of disruptions in the supply chain where its electronics and auto-mobile industries have been significantly affected by the Chinese elements. This made Indian manufacturers expensive to import components from China or faced tariffs and long delays due to the geographical location, thus has fuelled their need to look for local suppliers or look for other place around the globe to source their supplies and raw materials. There wasn't much change in India government's Make in India campaign that aimed to promote manufacturing within the country, and incentives provided to companies to cut their dependence on China. However, tight stretched and the absence of sophisticated manufacturing skills as well as costs associated with changing to local sources reduced the efficiency of these measures.

The recent disruptions in Chinese supply chains were particularly cumbersome for the Pakistan due to the fact that most of what it buys from China is facilitated under the CPEC agreement. This was especially the case with machinery, construction materials, and other products that are integral to furthering infrastructure projects, as well as manufacturing." This essential dependence on Chinese trade relations unveiled some of Pakistan's impoverished economic development prospects and its poor capacity to build additional supply channels.

Smaller South Asian countries like Nepal and Bhutan received effects of such disruptions but in an indirect manner. Since these countries do not heavily depend on manufacturing and global trade the impacts of the same were mild. Yet, the situation of high cost and longer lead time of Chinese imports put pressure on industries and consumers in their country.

New trade routes that emerged during the trade war can be viewed as the prospects to promote South Asia as a new manufacturing region. However, obstacles like infrastructure, high logistics cost, and low levels of technology makes it difficult for the region to attract big shifts of supply chain operations.

FDI stands for Foreign Direct Investment

The US-China trade war also affected FDI flows because firms started looking for a diversification of production networks away from China. South Asia rose to this strategy as a potential region for these investments through its availability of a huge pool of workforce, cheaper labour and expanding consumer markets. However, the degree to which the region has benefited from this structural change differential for countries in the region.

Countries like India, with big market size and progressive business conditions, could experience the growth of FDI during the trade war. Trade-related stocks including electronics, pharmaceuticals, renewable energy among others benefited and recorded increased investors' attention as firms sought to shift production from China. Such policy intervention included provision of exemption of taxes to foreign cos, and freeing up of regulations to encourage foreign investment. Nevertheless, obstacles that have been observed encompass bureaucracies, lacking infrastructures, and ineffectiveness of policies to manage FDI, have acted as constraints to FDI flows.

Some FDI was directed towards countries that Bangladesh is famous for its competitive garment industry. Purchasing managers and apparel brands and manufacturers around the world contemplated moving production to Bangladesh so as to avoid costs of doing business in China. However, due to the inability of the country to increase production to a large scale and in addition to reliance on imported inputs there were some constraints to FDI inflows.

However, the trade war did not have much influence on the FDI situation in Pakistan. However, as a global investment destination Pakistan could only attract investment under CPEC due to various factors including economic instability, security, and unfavourable business environment. These structural problems remained relatively unchanged by the trade war and it did not change Pakistan's position substantially in the situation of the global FDI shift.

Sri Lanka being a small South Asian economy, as well as Nepal, received fairly limited amounts of FDI, which are mostly directed towards tourism and renewable energy. These countries have less developed industrial sectors and smaller domestic markets, and hence were not very suitable for large scale manufacturing transfers.

The trade war opened windows for South Asia to attract FDI, but several issues limited the region to properly unlock those shifts. Inadequate physical facilities, high transportation costs, and policies interference were some of the challenges shared across the region. Furthermore, competition from the neighbouring and increasingly infrastructure- and investment-friendly Southeast Asia nations like Vietnam or Thailand capped South Asia's slice of the FDI cake (Bown, 2021).

Analysing the Direct Impacts of Climate Change on the South Asian Economy

Pakistan's direct trade with the two major economies has been small, but there has been profound indirect 'security externalities,' changing the geopolitics of South Asia, how the region's economies can grow, as well as the challenges it faces. Despite the fact that the trade war was between USA and China showing economic and political dominance, it has unveiled a strategic mix of opportunities and risks for South Asia to redefine its position in the global economy.

Geopolitical Realignments

Perhaps one of the most domino effects of the trade war has been the transformation of relations and partners within the international system. With the increasing trade and strategic rivalry between the US and China South Asia again began to see itself in the middle of changing regional alignments and economic alignments. The United States aimed at checking China's rise mostly in the Indo-Pacific region, offering more attention in South Asian countries, particularly India.

As one of Indo-Pacific region countries, India became one of the key allies for the US to contain China's economic and military power. There are emerging Groupings such as the four nations' Quad consisting of United States, India, Japan, and Australia which has intensified as a counter GCI to China's BRI. India stepped up to become a powerful strategic partner of the US in the defence, technology, and commerce after the trade war was initiated. But it provided India some issues, as this alignment kept it on the demanding balance in the trade and investment relations with China.

South Asian small countries such as Pakistan, Sri Lankan and Nepal into the geopolitics of the trade war have been different. Fully aligned with Beijing economically, particularly through CPEC, there is little doubt of Pakistan as being situated in China's strategic sphere. The trade war has further contributed to this alignment indirectly because China step up its economic cooperation with Pakistan to make up for the damage in other countries. Yet this killed Pakistan's sovereignty and made the country a client state susceptible to feasibilities like unsustainable debts and poor economic diversification in terms of reliance on Beijing.

For Sri Lanka and Nepal, although being not directly in the line of fire of the trade war, they are dealing with an unpredictable multiple world. Both countries have also endeavoured to balance their economic dependence of the southern neighbour and the general trading relations with other trading partners across the globe. To the young population of Sri Lanka, owing to its location in the Indian Ocean the country has been a focus of China's maritime silk road and therefore attention from other similarly regional and global powers like India and the United States of America.

This has led to the practice of throwing emphasis through the Indo-Pacific strategy that it got during the trade war, making south Asia's important in world politics. It at its core is based on sustaining a free and open Indo-Pacific vision, with an emphasis on comparable minded nations cooperating in sharing of economic and security expertise. In the case of South Asia, this has meant the chance for developing the bilateral and multilateral relations in trade and investment cooperation with the US, Japan and other Quad members.

India has become an important factor in the Indo-Pacific strategy as it is the biggest economy in South Asian region. Cohesively, its involvement in Quad processes has fostered a higher interaction Forum with the US in economic fronts - technology, energy, infrastructural. However, the same strategy also had its problems, for India; the addition of pressure to diversify and decrease its economic reliance on China, there was also the problem of its domestic economic agenda to think of.

Smaller SAARC countries have seen the Indo-Pacific approach as a chance whereby they can diversify their international relations and investment in infrastructure and connectivity sectors.

Nevertheless, their actual potential to harness these opportunities has been somewhat hampered due to their cognitive and institutional endowments.

Economic Opportunities

The trade war engendered some economic advantages to the South Asia especially from the manufacturing and exporting area. When other countries began to look for the second source and try to diversify their supply chain, South Asia offered the solution as a labour friendly, growing market and geographically strategic location.

The growth of manufacturing and export industry

India and Bangladesh saw expanded development in of manufacturing and exports industries. Bangladesh which was already among the largest exporters of garments all over the Globe benefited from the move by US and other European cloth retailers to source garments from other origins than China. The given case brought benefits for Bangladesh to improve its supply chain networks – particularly for textiles and apparels. Nevertheless, the country's high level of import dependence for raw materials and other products that forms a major sector in the country, ranging from furniture to apparel, most of which is sourced from China, negatively affected its ability to fully exploit on such changes.

India, being an economy with diversification, saw a rise in FDI inflow as overseas firms engaged in outsourcing or industries such as electronics, pharma and chemicals industries started outsourcing their production operations from developed economies. During the trade wars, the Indian government continued to launch its policy encouraging domestic production called "Make in India". However, some Anti-Adventure faced some difficulties, which include regulatory constraints, inadequate infrastructure, access competition with other cheaper destination a discourage such as Vietnam and Thailand.

Regional Trade Growth

The trade war also serves as an illustration that there are potentials of higher intra-regional trade within south Asia. Movements such as the SAFTA aimed at increasing the levels of IIT and economic cooperation within the region. Lack of competitiveness and limited diversification in the export base of these countries such as Nepal and Bhutan facilitated realization of greater trade integration with large trading partners such as India and Bangladesh. However, the full potential of regional trade could not harness due to some undone positive factors such as political conflict, logistics connectivity, and the inconsistency of policy environment in South Asian countries.

Economic Challenges

On the one hand, the trade war opened up some prospects for South Asia, on the other hand, there were several economic problems emerging from it. New challenges for consistent development of the domestic economy and its stabilisation appeared due to the intensification of competition within the region and world instability.

South Asia, like this article was assuming, felt the heat of the trade war as it heightened competition on the region's member countries for investment and orders shifting from China. Bangladeshi and Indian exporters benefitted the most from this system while Pakistan and Sri Lankan exporters were somewhat disadvantaged because of their skinny industrial structures and relatively poorer economic strengths. The absence of collaboration for regional strategies also intensified this competition, as nations vied to gain for themselves on the strategy's effect on the region (Urata, 2019).

This is the problems of inflation and currency fluctuation; a and b are similar problems to one another.

Fear associated with the trade war also destabilized the global economy by inflationary pressures, and volatile currency in South Asia. High import costs especially raw materials and components from china affected the manufacturing firms production costs. This ultimately induced higher consumption prices which affects home demand and financial stability.

While retaining competitiveness as a key challenge, currency volatility emerged as another challenge because the South Asian countries were exposed to fluctuation in the exchange rates resulting from shifts in trade and investment. For instance – the trade war weakened the Indian Rupee and the Pakistan Rupee – making importing even more expensive and putting pressure on the economy. Even the small countries like Nepal and Bhutan that have officially adopted the Indian Rupee affected by the above fluctuations.

Global Uncertainty

The outward trade disruption due to trade war made a sense of confusion in broader economy in South Asian region where majority of these economies are export oriented. Global demand, supply chain disruptions and changes to investment flows impacted growth, and economic stability in the region. For nations such as Sri Lanka and Nepal that largely depend on Tourism and remittances the indirect impacts of trade war inhibiting overall world trade further compounded existing weaknesses (Liu, 2018).

Country-Specific Impacts

The decoupage of trade relations between the two superpowers has lifted divergent effects across SA, resilient from the structural and trade facets and ability to stoically contend with global transformations. Structural strengths and weaknesses together with economic instability offered some member countries a chance to unlock their export markets and attract foreign direct investment while others struggled.

India

Benefitting South Asia, India in particularly has been one of the major beneficiaries of the US-China trade war by diversifying the sectors interested in business with it ranging from technology, pharmaceuticals to electronics. The trade war made MNEs to look for the alternatives to China for their manufacturing and sourcing needs thereby making India an attractive destination because of the large home market, low cost Labor and maturing business ecosystem. The information technology and technological industries in India ramped up interactions with their counterparts in the United States since restrictions in the technology sector led to a decline in cooperation between the US and China. Further, being a global leader in the production of generic medicines, the Indian Pharmaceutical Industry also witnessed demand upswing due to interruptions in Chinese supply source.

India also followed opportunities in electronics manufacturing and assembly in the electronics industry. The government of India has come up with a initiative tagged “Make in India” alongside offering incentives for the electronic manufacturing companies through the Production Linked Incentives (PLI) scheme to set up factories in India. Industries across the India also received a major fillip with major companies such as Apple and Samsung increasing employment and exports. However, these gains were faced with some challenges such as poor infrastructure, huge bureaucracy and policies that are either complex or not well implemented. For instance, while India has reduced its logistics costs over the last decade or so it is still one of the highest in the world compared to other countries such as Vietnam in Asia.

Another factor of unrest was economic and trade relationship as India has to challenge how to most effectively address with China. Even as of now India could find ways and means to cut dependence on Chinese imports it was a big importer of Chinese components and raw material especially in electronics and pharmaceuticals sectors. Of course, they found that the absence of a fully self-sufficient supply chain prevented India from fully benefiting from the trade war (Kataria & Naveed, 2014).

Bangladesh

Bangladesh was one of the largest beneficiaries of the trade war especially to its dominant textile and garment industry. When the US retailers began looking for sources other than China to avoid the costs of tariffs, Bangladesh, which was already a presumed least cost manufacturer for apparel products, enjoyed a surge in exports to the US and the EU. The world’s largest ready-made garment (RMG) industry of the country, which contributes more than 80 per cent to its export earnings, benefited from the escalation of new orders that enhanced production and employment.

But Bangladesh has had cut-throat competition from Vietnam and other nations of the ASEAN which also have geared up as equally competitive destination as China. Vietnam was more suitable for export orders and foreign direct investment because of costless trade agreements, geographic location, and better transport network than the performer country, Bangladesh. For instance, Vietnam’s CPTPP and the trade agreement with EU offered the competitor country better access to the most important markets than Bangladesh could do.

The other issues which affected Bangladesh’s export competitiveness were relate with importation of raw materials used in productions especially fabrics and yarns which were sourced majorly from China. Supply chain relations were disrupted by tariffs within these trade wars escalating production costs and the global competitive edge of Bangladeshi products. To this effect, the government and private sector embarked on the search for strategies to increase supply chain disaggregation and improving the capabilities for local manufacturing. But the change was gradual and needed considerable investment in equipment and facilities.

Pakistan

This work examines how Pakistan reacted to the trade war and the identified factors influencing their reaction were the country's vulnerabilities and its strategic partnership with CPEC with China. Although the trade war offered opportunities for countries to gain from trading diversions the country failed to harness them social factors such as Among the numerous effects of the war trade open Pakistan was in a weaker position to take advantages due to a limited industrial sector low economic growth and heavily relying on the Chinese investors.

While CPEC turned into the iconic project of the BRI strategy in Pakistan, it provided the country with the substantial infrastructure investments it needed, the scheme also put Pakistan even more in debt to China. Although, the detrimental effects of the trade war on the Chinese economy were felt in the slowdown of the pace and size of the CPEC projects in Pakistan. Moreover, due to the debt trap arrived from two different sources of CPEC loans, it put certain restrictions for Pakistan to invest more in sectors which could have been beneficial in achieving trade diversion prospects.

A plethora of industries benefited from the trade war, however Pakistan's textile industry, an important export market, had comparatively marginal improvements. Even though some buyers from US and EU planned to switch their orders from China to Pakistan due to its huge potential of cheap Labor supply, comparative advantage of Pakistan over Bangladesh and Vietnam was not very high and therefore it could not lure much export growth. Other factors including erratic energy supply, old age technology and high cost of production dealt another strong blow to this industry's ability to capitalise on the opportunities presented by the trade war.

Besides, due to high inflation rate, depreciating currency and fiscal deficits which are general aspects of Pakistan economy, the country was considered less favourable for foreign investment. While nations like India or Bangladesh got the chance to act as an attractive alternative for supply chain relocation tied to the trade war, Pakistan remained on the sidelines of the event's economic gains (Shambaugh, 1996).

Other South Asian Countries

The trade war between the USA and China has affected South Asia to different degrees, but small countries such as Nepal, Sri Lanka and Bhutan have been impacted slightly compared to others. Although some of these countries are less connected to the global production system and manufacturing value chain, they was not immune from the impact of changing regional supply chain and investment structure.

Being a least developed and highly agriculture-oriented country, Nepal did not feel the heat of this trade war to a very large extent. But supply disruptions from China hit Nepal's import-reliant sectors such as construction and the manufacturing industries. Import -oriented trade with neighbours, particularly India with which Nepal has a deep trading partnership, became even more important during this period due to efforts to look for new sources of imports supply and better connectivity.

Sri Lanka, located on some of the world's most important sea lanes for trading, did not receive a lot of direct impacts from the trade war but it received more limelight for its BRI involvement. Due to trade tensions some of the effects to Sri Lanka's port and logistics were on shipping and trade route. Nonetheless, high sustainable debt, a fragile political structure, and other economic issues which weakened Sri Lankan economy could not permit it to capture appropriate investments or trade diversions.

Due to its limited economic structure and its limited exports, Bhutan was the least impacted by the trade war. Hydropower exports to India and minimum involvement in global manufacturing helped it to avoid the impacts of trade conflict occurred in global economy. Nevertheless, through reliance on the Indian market trade, as well as the investment, it made Bhutan indirectly vulnerable in regard to regional economic shifts (Yu, 2020).

Regional Integration and Conceptual Strategies

The text demonstrates that the US–China trade war for South Asia signalled the efficacy of region integrated and strategic actions and reactions in value chains build-up, trade relations, connectivity, and institutional integration. With the rise of global economic instabilities affecting trade and investment flows throughout the region, member countries of SAARC need to pull efforts for improving competitiveness and regional integration (Itakura, 2020).

Key Issues Relating To Regional Trade Agreements

International and trade integration has been a notable feature in the SAARC and BIMSTEC countries in South Asia, and the trade has a potential for further expansion. These frameworks offer a framework through which the member states may for and seek solutions for challenges that are willingly mutual, realize improvement in trade facilitation and advance regional integration. However, their use has been hampered by political rivalry, lack of commitment and poor implementation.

Formerly known as the South Asian Association for Regional Cooperation, SAARC affiliated eight countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka to integrate economically and culturally. Under SAARC the South Asian Free Trade Area (SAFTA) deals to lower tariffs and non-tariff restrictions between the member countries. Nonetheless, due to bilateral issue especially between India and Pakistan, SAFTA has failed to realize its objectives. Restoring SAARC and SAFTA mean that the tendency of depoliticization of trade talks and the trust between the members should be initiated again.

As a rising organization which comprises Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand, BIMSTEC has attracted more attention as an emerging regional architecture, especially due to its orientation with linking South Asia and Southeast Asia. BIMSTEC's focus on infrastructure, trade and energy integration directly complements the requirements of the South Asian economies engaged in the process of searching for new trading partners and diversifying relations. For instance, the Transport Connectivity Master Plan under BIMSTEC seeks to increase connectivity by improving road and rail links and ports, which helps in trade integration and cutting transportation expenses. The Entrusting BIMSTEC and Future Development looks at how enhancing the organization's capability and extending its role can assist South Asia to make the most of its geographical setting and yawning gap between South and Southeast countries.

Only implemented structural measures to prepare for the strengthening of infrastructure, trade and the improvement of business environment.

South Asians' economic reaction to the US-China trade war also requires responding to the issues of connectivity, trade, investment procedures, and environment in export destination. These considerations form the discussed critical issues that define the region's capacities to attract investments, become integrated into the global supply chains, and increase the trade competitiveness.

Infrastructure Development

Despite consistent efforts over the last decade, infrastructure gaps continue to be one of the most profound challenges to economic development and integration in South Asia. Lack of transport infrastructure, wrong types and inadequate port infrastructure and unreliable energy provision raise logistic costs and constrain trade. To fill these gaps, it calls for parallel investments in tangible and intangible facility including outsourcing of partnership from regional and international organizations.

For instance, India has established development assistance for the Chabahar port in Iran and has focused on the Sagarmala project while on broadening connectivity. Likewise, Bangladesh has shifted its attention and investment with a view to enhancing capacities of the ports such as Chattogram Port to handle higher tonnage. The concept of cross border infrastructure for better trade and transit is not viably illustrated by the case of Coordinated initiatives such as the Motor Vehicle Agreement of the Bangladesh-Bhutan-India-Nepal (BBIN).

Trade Facilitation

Trade costs represent the biggest prohibitive factor to the movement of goods and the competitive position of exports from South Asia; cutting the costs of trade involves a range of measures from eliminating unnecessary border formalities to expediting documentary processing and clearance. Preventing the proliferation of complex bureaucracies and increasing the harmonization of standards alongside enhancing the physical infrastructure that surrounds borders can all be seen as moves in this direction. As an example, trade-enhancing activities that have recently been completed or are still ongoing, including the single-window information system, can be digitalized, dramatically facilitating cross-border trade.

The implementation of GST has been a measure toward efficiency of internal trade elimination of trade barriers within the country as well as easing the burden of tax compliance in India. Bangladesh and Sri Lanka have also that undertaken some initiatives of modernization of customs system but such reform are still in process for matching international best practice. While national and global level efforts to facilitate trade are on the upward trajectory, regional cooperation on trade with the support of SAARC and BIMSTEC as the frameworks will further enhance these and provide a complementary layer of a seamless trade environment.

Ease of Doing Business

Elimination of barriers concerns the simplification of the regulatory environment that would support FDI and entrepreneurial activity enhancement in South Asia. While at present India and Bhutan rank well in the index, Pakistan and Nepal still experience problems regarding regulatory policies, corruption and infrastructure constraints.

Some of the measures concerning the policy changes in business environment are through the deregulation of business licensing and registration, removal of unbudgeted bureaucratic constraints, and legal and regulatory certainty. For instance, India’s Make in India campaign, for example, and Bangladesh’s attempts to build SEZs are good examples of governments taking the first step toward creating a favourable climate for investors. The authors further state that extending these programmes and integrating them with the strategies of the regions may improve the overall prospect of the South Asia as an invest destination.

The international organisations such as world bank, IMF and WTO are in a position to respond to the trade war between the US and China and provide adequate support to south Asian nations taking advantages from the existing scenario. The institutions grant loans and policy advice besides serving with opportunities for arbitrating trade issues to enhance regional South Asian nations’ economic structures and linkages (Meng Fang, 2020).

World Bank

Because of the huge number of infrastructure and development projects that have been implemented across South Asia, the World Bank has been partnered in financing most of these. The commitments made to transport, energy and urban sectors have been useful in mitigating infrastructure deficiencies and improving integration in regions. For instance, in the Eastern South Asia Regional Trade and Transport Facilitation Program that was supported by the World Bank will enhance trade logistics and border infrastructure between Bangladesh, Bhutan, and Nepal. Such strategies could be further extended in order to help improve the rate of regional integration and thereby the competitiveness of the South Asian region in trade.

International Monetary Fund (IMF)

The IMF plays an essential role of financially supporting south Asian countries whose economy is not very stable like Pakistan or Sri Lanka. Its programmes may contain structural adjustments envisaging measures to correct fiscal deficits; enhance the efficiency of governance; and foster economic stability. Although the IMF support needs to be obtained to address the crises, more important for the South Asian countries is to undertake the necessary structural changes to minimize the reliance on external sources of finance.

Multilateral trade organisation known as the World Trade Organisation (WTO)

WTO also has very significant functions of offering a broad framework for multilateral trade talks as well as solving commercial quarrels. More generally, the benefit of integration to WTO could be constructive in defending the region’s interests within WTO debates, especially in issues to do with agricultural subsidies, market access, and trade liberalization. Exploiting WTO potential in promoting compliance with international norms and standards to eliminate non-tariff barriers will help regional integration in international trade.

Apart from these institutions regional cooperation with development banks like Asian Development Bank and Japan International Cooperation agency may also involve funding for the infrastructure and connectivity. For instance, the ADB’s financing of the South Asia Subregional Economic Cooperation (SASEC) has made it possible to make investments into transport, energy and trade, making the region more integrated.

Conclusion

Finally, reflecting on the findings of the paper under consideration and the information used as the foundation for the research, several conclusions should be made about the consequences of the US-China trade war: The fact is that the trade war between the USA and China could not but affect South Asia with varying direct and indirect consequences for the region; Despite the fact that the direct threats connected with the unfavourable consequences of the trade war were not adjudged to be massive Although the theory opened new opportunities for the countries like India and Bangladesh by trade diversion and increase in export demand, structural factors like, constraint in the infrastructure, weakness in the supply chain and competition from the regional players could not allow the realization of these potential gains in its full potential. The impacts were relatively mild for the smaller economies such as Nepal or Sri Lanka or the southern neighbour Bhutan, but they also signified new opportunities in the shape of preparing stronger regional economic integration and diversification of economies. To reap the benefits of the changing modes of international trade, SA countries therefore call for more investment on transport infrastructure, reducing administrative barriers to trade, as well as integrate more through regional players such as SAARC and BIMSTEC. Moreover, continued improvement of the business climate or continual diplomacy to work with the World Bank, International Monetary Fund, and World Trade Organization will be important to maintain the expansion and the place of the South Asian region in the global economy. With the solution of these structural issues and with reference to the strengths of this south Asian region the negative prospects of the trade war can be converted into positive prospects in the south Asian region.

References

Balassa, B. (2020). The Purchasing-Power Parity Doctrine: A Reappraisal. *Journal of Political Economy*, 584-596.

Bown, C. (2019). The 2018 US-China Trade Conflict after 40 Years of Special Protection. *SSRN Electronic Journal*, *30*(2).

Bown, C. (2021). The US–China Trade War and Phase One Agreement. *Journal of Policy Modeling, 43*(4).

Fajgelbaum, P., & Khandelwal, A. (2021). The Economic Impacts of the Us-China Trade War. *SSRN Electronic Journal*, *45*(2).

Itakura, K. (2020). Evaluating the Impact of the US–China Trade War. *Asian Economic Policy Review*, *15*(1), 77-93.

Kapustina, L., Ľudmila, Ľ., Silin, Y., & Drevalev, A. (2020). US-China Trade War: Causes and Outcomes. (1, Ed.) *SHS Web of Conferences*, 73.

Kataria, J. R., & Naveed, A. (2014). Pakistan-China Social and Economic Relations. *South Asian Studies*, *29*(2), 395.

Li, M., Balistreri, E., & Zhang, W. (2020). The U.S.–China trade war: Tariff data and general equilibrium analysis. *Journal of Asian Economics, 69*.

Meng Fang, M. (2020). A Crisis or an Opportunity? The Trade War Between the US and China in the Solar PV Sector. *Journal of World Trade*, *54*(Issue 1), 103–126. https://doi.org/10.54648/trad2020005

Ongan, S., & Gocer, I. (2020). Does trade policy related uncertainty affect international trade? Evidence from the US-China commodity trade. *China Economic Journal*, *13*(3), 1-12.

Park, C.-Y., Petri, P., & Plummer, M. (2021). The Economics of Conflict and Cooperation in the Asia-Pacific: RCEP, CPTPP and the US-China Trade War. *East Asian Economic Review, 25*(3), 233-272.

Shambaugh, D. (1996). Containment or Engagement of China? Calculating Beijing's Responses. *International Security*, *21*(2), 180–209. https://doi.org/10.1162/isec.21.2.180

Tam, P. (2019). Global impacts of China–US trade tensions. *The Journal of International Trade & Economic Development*, *29*(5), 1-36.

Urata, S. (2019). US–Japan Trade Frictions: The Past, the Present, and Implications for the US–China Trade War. *Asian Economic Policy Review, 15*(1).

Wu, J., Wood, J., Oh, K., & Jang, H. (2021). Evaluating the Cumulative Impact of the US–China Trade War along Global Value Chains. *The World Economy*, *44*(12).

Yu, M. (2020). *China-US Trade War and Trade Talk*. Springer Singapore. https://doi.org/10.1007/978-981-15-3785-1