Dialogue Social Science Review (DSSR)
www.thedssr.com

ISSN Online: 3007-3154
ISSN Print: 3007-3146

DIALOGUE SOCIAL SCIENCE REVIEW

Vol. 4 No. 6 (Jun) (2026)

The US-China Trade War and Its implication for Pakistan

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ABSTRACT
This paper aims to study the impact of the US-China trade war on Pakistan by analyzing the bilateral trade data from 2012 to 2025. The findings indicate that despite the reduction in the US-China trade imbalance during the initial phase of the trade war, diversification of trade supply chains and trade rerouting enabled the trade flows to rebalance, thus avoiding a long-term rebalancing. However, Pakistan experienced benefits from trade diversion, in particular, increased exports to the US in the period 2018-2022, largely of textiles. Due to structural constraints like limited industrial capacity, lack of export diversification, and energy issues, Pakistan was not able to fully capitalize on new opportunities. At the same time, Pakistan's dependence on China for its trade grew and the volume of imports rose, including intermediate goods, machines and goods linked to the China-Pakistan Economic Corridor (CPEC), continuing to contribute to the country's burgeoning trade deficit. The study recommends that Pakistan should undertake a balanced economic policy with both the US and China, increase its competitiveness, attract export-oriented foreign direct investment, and diversify its export portfolio.

Keywords: US-China Trade War; Bilateral Trade; Geopolitics; Trade Diversion

Introduction

The economic and political bond between the United States of America (US) and China has turned into one of the most influential bilateral relations of the modern international system. The significance of developments in US-China relations for the international trade patterns, global supply chains and economic potential of other countries is due to their economies' scale and their leading position in global trade and investment. So the development of the trade relations between these two powers has been a topic of much interest to not only policymakers, but researchers as well. There is a significant change in the US-China relationship over time. The ties between the two countries were limited

ISSN Online: 3007-3154
ISSN Print: 3007-3146

until 1971, when the United States recognized the government of China. But, diplomatic relations have slowly started to improve in the early 1970s, and a new period in bilateral relations has begun. This reconciliation led to the formal recognition of China by the United States on Jan.1, 1979. It was an acknowledgment during the Carter Administration. On the same day, diplomatic relations with the People's Republic of China (PRC) were officially restored in the US while the official recognition was transferred from the Republic of China (ROC) to the government in Beijing. The decision came after the opening was started by Richard Nixon during his 1972 visit to China (Council on Foreign Relations, 2025).

President Nixon's visit to China represented an important milestone in the development of bilateral relations and marked the beginning of a policy of engagement between the two countries. This visit marked the first time a sitting US president traveled to China and is widely regarded as a turning point in US-China relations. This approach was based on the belief that China's integration into the global economy and system will lead to economic reform and enhance international cooperation. In China's perspective the "reform and opening-up" policy was regarded as a major step of economic development and closely connected to the normalization of the ties with the United States.

The US-China relationship has become a new one of collaboration and strategic competition. For the most part, high-level diplomatic relations have continued, although there have been some tensions. China started commerce with the rest of the world after its accession to the World Trade Organization in 2001, and the two became significant trading partners, with their economic dependence growing substantially.

The Obama administration (2009-2017) has shown a dual policy of engagement and competitiveness between the United States and China. President Obama tried to "Pivot to Asia" and "Rebalance to Asia" as a first step to influence the balance of power in the region and foster economic interdependence. Despite a continued trajectory of cooperation in certain spheres, such as climate change, global finance, and trade, worries about China's growing trade surplus, industrial policies, and increasing global influence also intensified as China's rapid economic growth posed a threat to US economic dominance (Ikenberry, 2018).

A more drastic change under President Donald Trump was observed as the Trump administration argued that existing trade arrangements were unfair to the United States and sought to renegotiate them on more equitable terms. Following several inconclusive negotiations, this approach led to intensified trade talks with China and marked the transition toward open economic confrontation and sustained trade disputes (Ikenberry, 2018). In May 2018, the US government, claimed that US interests were being jeopardized and that China was pilfering US interests through existing trade agreements. In response, Beijing levied taxes on US goods, primarily those from states that supported Trump's stance opposing China. China's unjust economic tactics were confronted by the US, which then started a trade war.

US-China trade war will have great impact on global trade and political relations among nations. This trade not only effect developed countries but will arise challenges for developed and developing nations. Pakistan being a developing country has strong economic and political ties with US and China as it always maintained cordial relations and has been a loyal ally of both nations. Pakistan would want to stay unbiased given its lengthy history with the US and its position as a vital ally in the war against terrorism. Even so, China's Belt and Road Initiative, better known as the BRI, in Pakistan is not new; Pakistan and China have a long history together. Pakistan's economy is the least integrated in the global supply chain. Therefore, short-term effects will be minimal, but

ISSN Online: 3007-3154
ISSN Print: 3007-3146

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long-term effects will be felt (Salik, 2019).

Following diplomatic normalization, economic cooperation between the two countries expanded rapidly. Over subsequent decades, bilateral trade increased exponentially, making China one of the largest trading partners of the United States and the United States a major export destination for China. The growing economic interdependence between the two countries has not only shaped global trade dynamics but has also generated significant geopolitical and economic consequences for third world countries, including Pakistan. As a strategically located developing economy maintaining close economic ties with both the United States and China, Pakistan's trade and investment prospects are increasingly influenced by changes in US-China economic relations. Therefore, a descriptive analysis of US-China trade war is essential to understand its potential implications for Pakistan's economic development and strategic positioning in the global economy.

Literature review

Theoretical framework

The theory of “complex interdependence” is most commonly used while discussing the economic rivalry between the US and China and how it affects Pakistan. Through the prism of the abovementioned theory, patterns in US-China relations and their implications can be better understood. A theoretical paradigm is needed to comprehend US-China relations and their involvement in South Asia which is crucial. Furthermore, theoretical knowledge of the rivalry, collaboration, and effects on Pakistan between the two major powers the US and China is made possible by complex interdependence.

Keohane and Nye established the complex interdependence theory, rejecting the realism theory and substituting beliefs to represent reality (Keohane & Nye, 1977). In response to realism, Keohane and Nye developed the idea of complex interdependence, whereas liberal theory promotes state cooperation. The study of complex interdependence examines the connection between a country's interests and prosperity. This theory clarifies a number of concepts and methods by which big powers become dependent on one another since they have similar political and economic objectives. Complex interdependence produces three fundamental ideas that give rise to a certain political process that shifts the balance of power throughout the course of events. Instead of talking about interstate interactions in their mutual interaction, actors found it harder to rely on one another. Keohane and Nye depicted the picture of international politics as involving aspects of interdependence between actors beyond borders and non-state players. In contrast to dependency, interdependence refers to shared dependence. In international politics, interdependence refers to shared activity by actors in many nations, whereas dependency requires acts to be initiated by outside parties. According to Keohane and Nye, interdependence can exist without perfectly balanced, mutually beneficial reliance. This asymmetrical dependency probably affected the way the actors interacted with each other. The other extreme was total dependence on influential people (Keohane & Nye, 1977).

The China-US trade war’s effects on Pakistan's trade can be considered via three major theoretical lenses: trade diversion, supply chain rerouting and macroeconomic constraints. The theory of trade diversion holds that a rise in tariffs on imports from a large trading partner will lead importers to look elsewhere for their imports. Since US tariffs were placed on products from China in 2018, US companies looked for other sources to supply textiles, apparel, and other manufactured goods. This change did not provide much advantage to Pakistan, which had a well-established textile industry and

ISSN Online: 3007-3154
ISSN Print: 3007-3146

preferential market access in the form of Generalized System of Preferences (GSP) arrangements. Trade diversion has occurred in the moderate rise in Pakistan's exports to the US after 2020, but the effects have been more modest than for other nations like Vietnam and Bangladesh (Bown, 2022).

Second, the supply chain rerouting mechanism was the result of China's companies trying to avoid US tariffs by moving parts of their manufacturing operations to third countries. In this model Pakistan can be used as a supplementary production/manufacturing site, backed up by its strategic location in the China-Pakistan Economic Corridor and its close economic relations with China. The trade of machinery, intermediate goods and industrial equipment with China for Pakistan indicates some production activities and value-chain linkages were diverted through Pakistan during 2021-2022 (World Bank, 2023). Third, macroeconomic constraints constrained the extent to which Pakistan could benefit from the new trade opportunities. The chronic current account deficits, foreign exchange shortages and frequent IMF stabilization measures limited industrial growth and import capacity. The combination of these structural issues made Pakistan less competitive and unable to significantly boost production and exports in response to the changing world trade patterns (IMF, 2024). The China-US trade war, therefore, presented opportunities to Pakistan but the domestic economic considerations acted as a dampener.

Empirical Literature

Dumbaugh (2010) argued that the leaders of the China and Pakistan have a tendency to refer to their connection as an "all-weather" friendship, which roundtable members believe is a reflection of this historical continuity despite the fact that both countries' needs have changed. Participants stated that Pakistan, on the other hand, views the America as a "fairweather" friend that tends to give less weight to the past and more weight to the future and US interests and goals. At the roundtable discussion, there was consensus that China and the United States have similar existential worries with Pakistan. Both believe that the establishment of a secular government in Pakistan will better serve their interests than the rise of a radical or fundamentalist dictatorship, and they both see stability in Pakistan as a key strategic objective. Likewise, Riedel and Singh (2010) focused on how Pakistan and the US and China's political, economic, and security ties are developing simultaneously. It examines the history of such ties and explains why Beijing, Islamabad, and Washington have not been able to work together to produce quantifiable security advantages in the past. The current state of affairs in Pakistan is then examined, emphasizing the shared interests of the United States and China in maintaining stability in that country. Recommendations on how the three nations might cooperate to accomplish Pakistan's short-term security objectives follow this review. Lastly, it looks at the likelihood of making fundamental adjustments that can give South Asia long lasting peace.

Zeb (2012) focused on the relations between China and Pakistan .This study documented the foundations of mutual understanding, friendship, and trust are the focal points of the progressive patterns in the relationship between China and Pakistan. These components are necessary to build a solid and long-lasting alliance, and economic cooperation is one of them. Pakistan's dedication to understanding and matching with China's viewpoint guarantees the stability and support of their relationship.

Lawrence (2018) argued that by tightening domestic protections and punishing US corporations' offshore operations overseas, President Trump has attempted to alter Us trade relations. Other nations responded against these actions since they both use and

ISSN Online: 3007-3154
ISSN Print: 3007-3146

break trade norms. These trade conflicts may have caused long-lasting harm to the ongoing global value chains, which depend on stable market access regulations. The foundation of the rules-based trading system has been undermined by these frictions, which have also disrupted commerce and investments. Trump allegedly took some actions in response to what he perceived to be unfair practices by China. The US could have addressed many of its issues more successfully by working with other countries and implementing policies that support sustaining the rules-based system, rather than using tariff wars to put pressure on China. This is why the gap between the US and China is disappointing. If other nations, particularly China, take action to support and improve the trading system, the overall harm to it may still be limited, even though the US may have lost some of its leading role.

Malawer (2018) argued that the United States has entered its largest trade war with China and other nations since the 1930s as a result of President Trump's recent implementation of further tariffs worth $ 34 billion on Chinese imports and China's immediate retaliation. Since 1945, Trump's policies which center on trade deficits, bilateral trade, and threats have been historically abnormal. They also differ from the contemporary international system. Building alliances and putting forth workable ideas to address trade-related concerns, such as those pertaining to World Trade Organization rule-making and dispute resolution, should be the focus of US trade diplomacy.

Arizona (2019) examined the origins and impact of the “China Threat” perception in the United States and the evolving geopolitical rivalry between Washington and Beijing. The study explored why the US attitude toward China shifted and considered how Sino-American competition might develop in the future. It began with a historical overview of US-China relations from the 1970s through the lead-up to President Trump’s election, highlighting the decline in ties during his administration. The article then detailed growing US concerns about China and the resulting changes in American strategy. It also analyzed the potential consequences of the “China Threat” perception for future US-China relations. The study concluded that China remains a significant global power, and that seeking alternative partners to counter China is not a viable solution. Ultimately, any conflict between the two technological developed countries would have deep global implications.

Fatma and Bharti (2019) claimed that China has become the US largest commercial partner, yet the US increasingly perceives China, despite being a military and economic giant, as a beneficiary of an imbalanced international system. While the US helped create the current global economic order, disagreements within this system have contributed to the ongoing US–China trade tensions. China’s WTO accession enabled it to maintain a bilateral trade surplus with the US, but American and other foreign businesses often lacked comparable access to Chinese markets. In this context, the US has used economic and trade pressures, including the threat of a trade war, to seek concessions from China. Moreover, policies such as China’s “Made in China 2025” plan are seen as both a driver of the US-China trade deficit and a potential challenge to the global trading system, highlighting the mutually harmful nature of the conflict and the need for potential conciliation. Keeryo, Mumtaz, and Lakhan (2020) examined how the trade war between the US and China affected Pakistan’s exports. They found that when the US imposed tariffs on Chinese goods, China’s exports to the US dropped by 39% because those products became more expensive in the American market. For Pakistan, exports to the US fell by only 3%, which is small compared to China. However, Pakistan’s exports increased to other countries in the region: by 50% to Bangladesh and 39% to India. Thus, Pakistan's trade with the US has suffered greatly as a result of this war.

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Ali, Bhutto, and Saboor (2022) examined the impact of the growing strategic rivalry between the United States, China, and Russia on Pakistan, highlighting the country's delicate position within South Asia's complex security environment. The study noted that while Pakistan has strengthened its economic and strategic partnership with China, particularly through the China-Pakistan Economic Corridor (CPEC), this alignment has complicated its relationship with the United States, which has intensified economic and security cooperation with India to counter China's rise. The authors found that the escalating rivalry places Pakistan in a strategically vulnerable position, requiring careful management of its diplomatic and security ties to avoid overdependence on any single power. The study emphasized that Pakistan must maintain strategic autonomy and pursue a pragmatic foreign policy that engages both the United States and China, safeguarding its economic and security interests. The research further highlighted the broader implications of the US-China competition for regional stability, including potential border tensions and shifts in security arrangements, and suggested that Pakistan's policy decisions will be crucial in navigating this major power struggle effectively. On other hand, Kholid (2022) in Economic Diplomacy Perspective, have focused their attention on the US-China trade war of 2018–2020, seeking to understand the factors that led to this confrontation between the two superpowers. The study concluded that tariff negotiations are a diplomatic tactic used by the US under Donald Trump to defend and uphold US innovation and technological superiority over China.

Holland (2024) examined the implications of intensifying US-China geostrategic competition for Pakistan's foreign policy during the second Trump administration. It analyzes how renewed strategic rivalry, trade tensions, and Indo-Pacific policies influence Pakistan's diplomatic, economic, and security interests. The study argues that Pakistan faces the challenge of balancing its strategic partnership with China, particularly through CPEC, while maintaining constructive relations with the United States. It highlights Pakistan's need for a pragmatic, multidimensional foreign policy that safeguards national interests and minimizes the risks arising from great-power competition.

Global order has been significantly altered with the escalating US-China rivalry, which has posed strategic challenges for Pakistan. Pakistan has an interest in geopolitics and is following a pragmatic hedging policy by simultaneously engaging the United States in geostrategic relations and strengthening its geo-economic and security ties with China in a geopolitically sensitive region. This is a state of balance, which aims to get the best of both worlds and not aligning oneself with either side. Pakistan's foreign policy has now further evolved toward geo-economic goals to overcome economic pressures and to deal with complex security dynamics in the region (Jamali & Hussain, 2026).

Research Methodology

This descriptive and analytical study collected the bilateral trade data from United Nations Statistics Division (2026), Special Investment Facilitation Council (Govt. of Pakistan, 2026) and The Observatory of Economic Complexity (OEC) (2026) and Census and Economic Information Center (CEIC) CEIC's economic databases (2026). The study demonstrated facts and figures to discuss the trade deficit between the US and China. Moreover, describes the share of US and China in Pakistan's trade along with determining correlation of the US-China trade deficit (TRD) with Pakistan's exports to US and China.

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Results and Discussion

The section describes and discuss the US-China trade deficit and Pakistan trade with China and the US. Figure 1 depicts the bilateral trade between US and China over period from 2012 to 2025.

The US imports from China increased steadily to $570 billion by 2018, US exports to China increased somewhat between 2012 and 2017, reaching a peak of $125 billion. US imports decreased to $470 billion in 2019, a 17.5 percent decrease from 2018, but exports fell precipitously to $105 billion as the trade conflict intensified. As a result, the bilateral trade imbalance decreased from $455 billion in 2018 to $365 billion in 2019.

US exports recovered to $115 billion in 2020 and reached a record $155 billion by 2022, surpassing pre-war levels, as a result of the "Phase One" trade agreement agreed in January 2020, which included Chinese commitments to increase purchases of US goods. They also bounced back, but the volume of imports has been fluctuating between 2020 ($440 billion), 2021 ($540 billion), and 2022 ($580 billion). In 2022, the trade imbalance increased once more to $425 billion. In 2023, however, imports dropped by 24 percent to
$440 billion and exports declined 6.5 percent to $145 billion, the same amount as in 2020. The decline has been contributed by slow global demand, residual tariff effects, diversification of trade chains (for instance, reworking the sourcing to Mexico and Vietnam) and continuing tariff restrictions.

In 2024, the total value of all the products and services exchanged between the two countries was approximately $688 billion. There was a structural trade deficit with China, where the US imported almost $427 billion worth of goods, but exported only around $148 billion. With US goods imports from China falling to $308.4 billion (a 29.7 percent decline) and US goods exports to China falling to $106.3 billion (a 25.8 percent decrease from 2024), the declining trend became more pronounced in 2025. The US trade deficit with China thus decreased to $202.1 billion, a 31.6 percent decrease from the prior year.

Overall, the trade war had no long-term impact on the bilateral trade imbalance, with the trade imbalance returning to near pre-war levels by 2022 after a temporary drop in 2019–2020. It did, however, alter the trade patterns. The Phase One deal bolstered US exports to become more reliant on energy and agricultural goods, and continued to impose tariff barriers on Chinese imports of US manufactured goods. Trade disputes, macroeconomic issues, and a strategy of 'decoupling' US-China trade could be responsible for the sharp declines in 2023 and continuing through 2025.

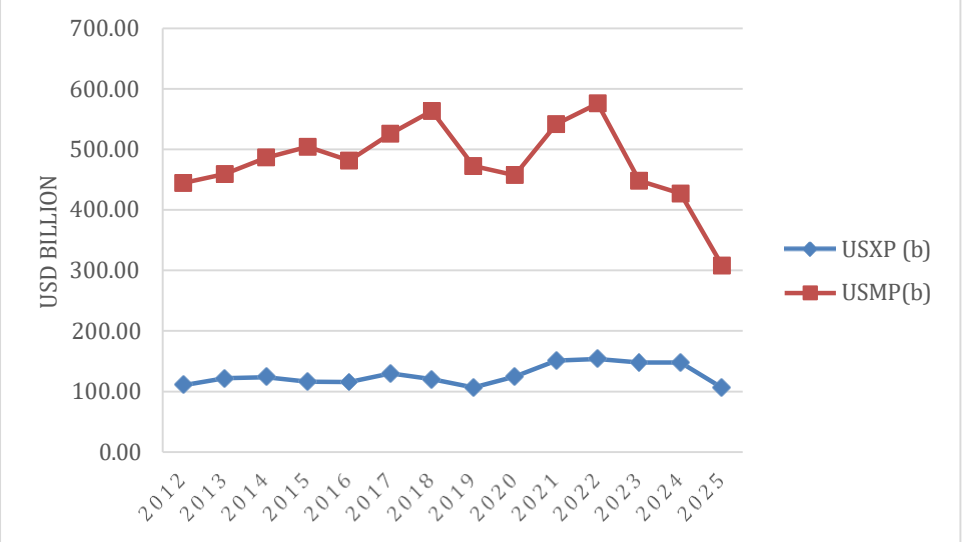


Figure 1. US-China Trade

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ISSN Online: 3007-3154
ISSN Print: 3007-3146

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As the US-China trade war escalated around 2018, US importers started to diversify their supply chains, moving further away from China, in order to avoid high tariffs. This adjustment provided an opportunity to Pakistan particularly in the field of textiles, which is its main product for export to the USA. Data from 2012-2025 shows that Pakistan's exports (PAKXP) to the US were comparatively stable at $3.8-$3.9 Billion till 2017. But starting in 2018, exports started to increase, reaching $3.9 billion in 2018, $4.1 billion in 2019, and $4.2 billion in 2020 before climbing to $5.7 billion in 2021 and reaching a peak of $6.6 billion in 2022. This rise is in line with the high level of trade diversion during the times when the consumers in the US were seeking alternatives to Chinese products. Meanwhile, Pakistan's imports (PAKMP) from the US rose from $2.9 billion in 2018 to $3.6 billion in 2021, due to part of the reasons, including energy and defense needs of Pakistan and the appreciation of the US currency. In 2023, Pakistan's exports fell to $5.2 billion, and in 2024 fell further to $5.1 billion, partly because of the economic difficulties in Pakistan and partly because of the decrease in the global demand. So, in the short-term or medium-term, the trade war had a positive effect on Pakistan's access to the US market, but in the long term it was limited by structural problems (productivity, energy costs). Pakistan was really not a big prize of the "China shift" but a little one.

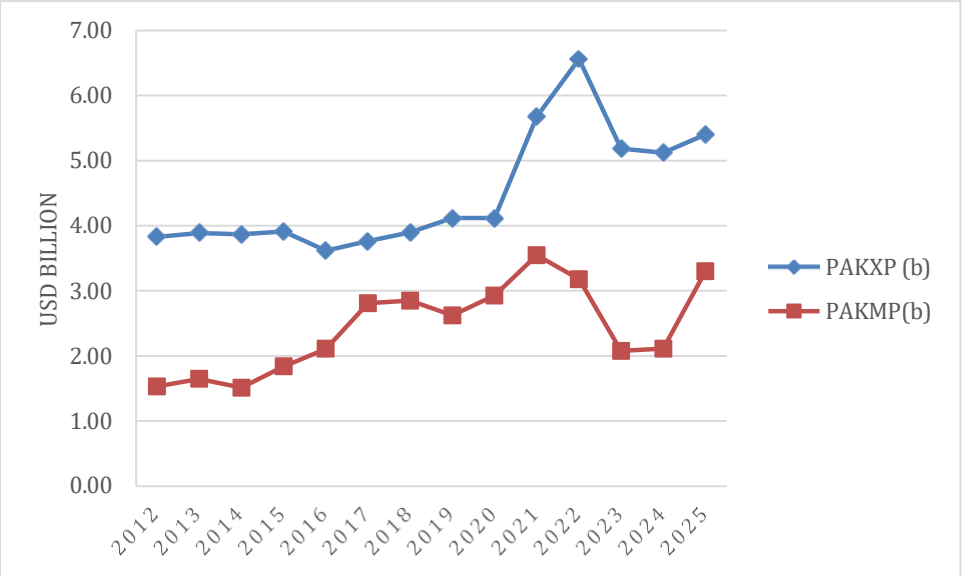


Figure 2. PAK-US Trade

Table 1 presents the correlation between PAKXP and US-China TRD. The correlation coefficient is 0.18 and is positive which means that the US-China TRD helped Pakistan to exports more to the US. It can be evidenced from Table 2 the US was always the largest export market for Pakistan during 2012-25. The percentage of Pakistan's total exports in the US keeps on climbing from 15.7 percent in 2012 to an estimated 18.5 percent in 2025. The variation was not significant but overall a general upward trend reveals that Pakistan has become more dependent on the US for exports. The rise was more evident after 2020 when the US share of total exports of Pakistan has consistently been around 18 per cent. This trend is in continuation with the demand for Pakistani products in the US for the last several years which is mainly in the form of textiles, garments, home textiles and leather products. The proportion of imports from the US, on the other hand, was relatively low during the study period. In 2012, the US imported 3.4 percent of Pakistan's total imports, a figure that saw a slight decline in the middle years, but is expected to rise to an estimated 4.5 percent by 2025. This rise, however, did not make the US a significant source of imports for Pakistan as compared to the other big suppliers like the Gulf countries and China. The results show an unequal trade relation

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www.thedssr.com

ISSN Online: 3007-3154
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between Pakistan and the US. The US is a much more important export market for Pakistan than it is an export source. Thus policy shifts or adjustments in the policies of other countries or market access conditions or tariff regime in the US can have significant effects on Pakistan's export revenues, foreign exchange reserves as well as the overall economic stability of the country. Meanwhile, the moderate reliance on imports also indicates that Pakistan is less vulnerable compared to other countries in the event of any disruption in imports from the US. Hence, preferential market access and better ties with the US remain a key priority to Pakistan's overall economic development and external sector performance.

Table 1 Correlation: PAKXP to US and US-China TRD

	TRD
XPPAK	1
TRD	0.18

Table 2 The Share of US in PAK's Trade

Year	US Share in Pakistan's Exports (%)	US Share in Pakistan's Imports (%)
2012	15.7	3.4
2013	15.8	3.1
2014	15.5	3.0
2015	16.3	2.8
2016	16.8	2.9
2017	17.1	3.0
2018	17.4	3.2
2019	17.5	3.1
2020	18.3	3.4
2021	18.0	3.2
2022	17.2	3.6
2023	18.1	3.8
2024	18.0	4.1
2025	18.5	4.5

PAKXP even started to shrink in the years leading up to the beginning of the US-China trade wars in 2018, from $3.50 to $2.00 billion. Pakistan even started to shrink its exports during the years leading up to the beginning of the US-China trade war (2018), from $3.50 to 2.00 billion, showing structural competitiveness issues in its export industry. During the same time, the volume of imports jumped from $9.50 to $18.50 because of the growing domestic demand, energy imports and reliance on China's intermediate goods, such as electronics, textile raw materials and machinery linked to the China-Pakistan Economic Corridor. Therefore, the trade deficit grew steadily, from approximately $6.0 billion in 2012 through to approximately $16.5 billion in 2017.

When the trade war began to take off in earnest in 2018 with the imposition of tariffs against Chinese goods by the US, China sought alternative export destinations and supply routes. Until 2019, Pakistan's exports were $2.00 billion, which went up slightly to $2.50 billion in 2020. This modest rise has been explained by limited trade diversion, as some US consumers shifted their orders from Chinese manufacturers to other countries that produce the same goods at low prices, such as leather, sports equipment

ISSN Online: 3007-3154
ISSN Print: 3007-3146

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and textiles produced in Pakistan. But the effects were mitigated by own supply-side constraints, in Pakistan. In the meantime, imports decreased from $18.50 billion in 2017 to $16.50 billion in 2019 and then to $15.50 billion in 2020. This is attributed to several reasons: firstly, Pakistan's currency depreciation and demand contraction limited its capacity to import goods, secondly, with the COVID 19 pandemic, international trade was hampered in 2020 making the trade war effects even more complex, and lastly, with the trade war, China shifted some goods from the USA to other countries. The key lesson is that the trade war did not lead to a significant rise in Pakistan's exports immediately, but rather coincided with the stabilization of the trade deficit, partly due to decline in imports from China as the world trade routes were restructured.

Both imports and exports had a strong increase in 2021-2022, which was followed by a period of turbulence and a post-war spike. The levels of imports and exports in 2021 were at $24.50 billion and $23.50 billion, respectively, which were historically high, but reduced in 2022 to $3.00 and $3.50 billion, respectively. The trade war had delayed trade diversion: by late 2021, Pakistan had seen some FDI in the textile and electronics assembly, and multinational corporations were advancing “China + 1” plans because of the uncertainty of the US-China trade war. However, Pakistan imported considerable quantity of intermediate goods (steel, chemicals and machinery) from China for re-export to the US and Europe, which is an indirect form of trade deflection that led to the rise in imports. In addition, global commodities price shock and worsened by the Ukraine conflict has led to rise of import cost in Pakistan in 2022. In this regard, the trade war indirectly boosted the bilateral trade between China and Pakistan, but at the cost of the latter's rise in trade deficit. There is likely to be a phase of stabilization and normalization beginning in 2023. The range of exports is $ 3 billion to $ 3.5 billion. Pakistan’s imports (PAKMP) fall to between $ 16.50 billion and $ 17.50 billion in 2023-2024 before increasing once more to $ 20.50 billion in 2025. This indicates the limiting factor of exports: Pakistan is yet to reap the rewards of the trade war due to productivity gaps and the absence of diversification. Import moderation was done after the balance of payments crisis in 2022, where Pakistan temporarily slashed imports by introducing import compression policies such as letters of credit cap and tariffs on imports. The recovery in imports in 2025 suggests a resurgence of demand, which might be fuelled by energy imports or CPEC Phase 2 projects. However, with Pakistan still heavily dependent on Chinese-manufactured goods, the overall impact of the trade war over the longer term has been modest positive net exports with a chronic negative net balance.

The US-China trade war had a slight positive impact on Pakistan's exports, primarily through reorganization of supply chains and trade diversion since 2020. Despite this, Pakistan's small export base, need to go through the Chinese intermediaries for importation and its frequent occurrence of macroeconomic crises prevented it from maximizing the gains of the trade war. The data reveals the two-way nature of trade diversion for the smaller countries, with exports seemingly increasing in 2021-2022, but imports rising significantly. To achieve any trade-war dividend, policy makers should focus on reducing the import content of exports and attract FDI into higher value-added sectors.

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www.thedssr.com

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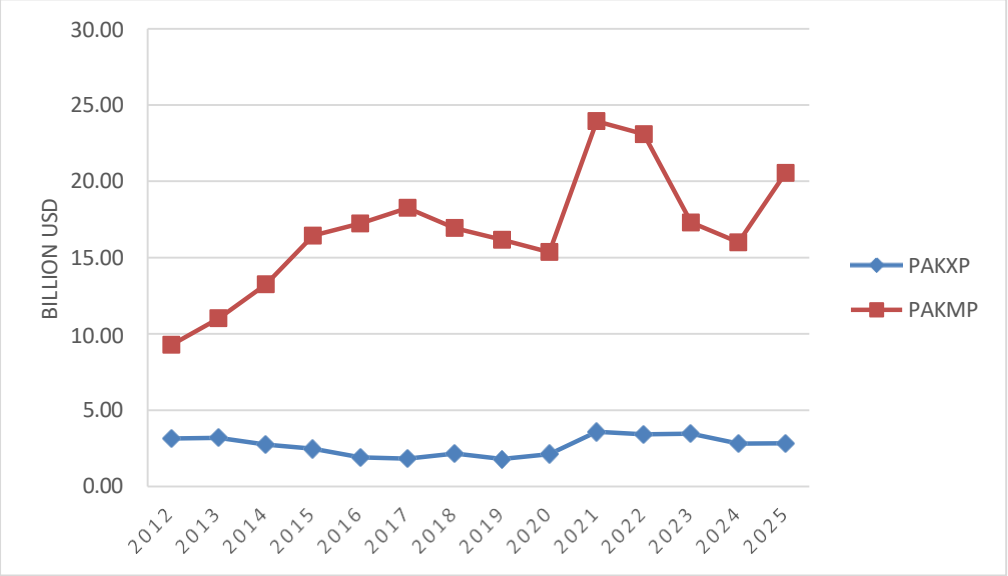


Figure 3. Pak-China Trade

Table 3 presents correlation between PAKXP to China and the US-China trade deficit (TRD). The correlation coefficient is 0.22 carrying negative sign which indicated that US-China TRD negatively affected PAKXP to China. Table 4 revealed that the trade relation of China with Pakistan also rose significantly from 2012 till 2025. The share of Pakistan exports in the total exports to China has increased slowly from 7.5 per cent in 2012 to an estimated 11.0 per cent in 2025. The rise indicates the strengthening of the economic ties between both nations, especially with the launch of the China-Pakistan Economic Corridor (CPEC) and phase-2 of the Pakistan-China Free Trade Agreement. The higher value of exports also indicates that China has become an important market for Pakistan's exported goods, such as agriculture, textiles, rice and minerals etc. This is an even greater trend in the import side. China has become the key supplier of Pakistan's imports; its contribution rose from 15.8 percent in 2012 to an estimated 29.2 percent in 2025, making almost a third of Pakistan's imports from China. This significant surge in imports is due to increasing demand for Chinese machinery, electrical equipment, industrial inputs, chemicals and capital goods for infrastructure and energy projects under CPEC in Pakistan. It turns out that the trade relationship is not even, and Pakistan is more reliant on China as an importer than as an exporter. The growing share of exports in the total trade has raised trade deficit and external-sector vulnerabilities, though it has also provided opportunities for industrial development and investment with China. Thus, Pakistan must diversify and increase the export base to maximize the opportunities to access China market and make better use of it for a better trade balance and balance.

Table 3 Correlation: PAKXP to China and US-China TRD

	TRD
XPPAK	1
TRD	-0.22

Table 4. Share of China in Pakistan's Exports and Imports

Year	China's Share in Pakistan's Exports (%)	China's Share in Pakistan's Imports (%)
2012	7.5	15.8
2013	7.8	16.3

Dialogue Social Science Review (DSSR)
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ISSN Online: 3007-3154
ISSN Print: 3007-3146

DIALOGUE SOCIAL SCIENCE REVIEW

Vol. 4 No. 6 (Jun) (2026)

2014	8.1	17.2
2015	8.4	18.0
2016	8.8	20.1
2017	8.6	22.5
2018	8.2	24.3
2019	7.9	25.1
2020	8.1	26.5
2021	8.6	27.4
2022	9.2	27.8
2023	10.1	28.3
2024	10.5	28.8
2025	11.0	29.2

Conclusion and Policy Implications

The descriptive analysis shows that the US-China trade war had a significant influence on global trade and the global value chain, but it was not a very effective trade war in terms of lowering the long-term bilateral trade surplus. In the initial years of the trade war, the US has succeeded in putting a brake on China's imports, but bilateral trade volume has bounced back to near pre Trade War levels in 2022 and then fell again in 2023-2025 as the world and supply chains continue to decouple. All in all, the evidence suggests that the trade war did not bring a permanent end to the trade imbalance between the US and China, but simply allowed the trade mix to shift.

The trade war brought about opportunities as well as challenges for Pakistan. Fortunately for Pakistan, the trade diversion effect resulted in US importers avoiding Pakistan and going elsewhere for their supply. The significant boost in Pakistan's exports to the USA, especially textiles and apparel, from 2018 to 2022, was indicative of this. But such progress actually was short-lived and relatively small compared to other economies like Vietnam, Bangladesh and Mexico. Structural issues such as energy shortages, low productivity, restricted export diversification, substandard infrastructure and macroeconomic instability were responsible for Pakistan's failure to fully take advantage of the changes in the global supply chain.

The analysis of the relations of trade between Pakistan and China shows a different scenario. Though there were some gains in exports, Pakistan's imports from China remained high as demand for machinery, industrial inputs, electronics, and investments for CPEC continued to grow. As a result, the bilateral trade gap with China increased in the future. The indirect positive effects of the trade war on export-oriented production in Pakistan included supply-chain rerouting and a larger investment in the country from China, but that made Pakistan more reliant on China for intermediate and capital goods. Thus, the trade war had a mixed impact on Pakistan; a moderate exports boom on the one hand and a stubborn trade deficit with China on the other.

Geopolitically, Pakistan is in a special situation between the world's two biggest economies. Pakistan's ties with China have now grown into a comprehensive strategic partnership, based on the China-Pakistan Economic Corridor (CPEC), infrastructure development, energy cooperation and defence cooperation, among other areas, and with a view to strengthening economic integration. China is still Pakistan's biggest trading partner, and a major source of foreign investment and development finance. Therefore, it is imperative for Pakistan to continue and expand economic ties with China, especially in the context of CPEC Phase-II, industrial relocation, technology transfer and special economic zones. Meanwhile, Pakistan's economic and strategic ties with the US remain

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vital. The United States is the biggest export market and a major source of investment, technology, remittances, educational opportunities, and access to international financial institutions for Pakistan. Although geopolitical priorities have evolved with time, it is imperative to consolidate trade and economic relations with the USA to grow Pakistan's export base and link it to high-value international markets.

In this context, it is important that Pakistan does not make the mistake of assuming they have to balance the importance of their relations with Washington and Beijing. Rather it should be a balanced and pragmatic economic diplomacy strategy which takes advantage of both parties. If the world economy is so diverse and strategic competition and realignment of supply-chains prevail, then the comparative advantage for Pakistan will be acting as a mediator between East and West rather than focusing exclusively on one side or the other.

This analysis yields certain policy implications. First, there is a need to enhance export competitiveness in Pakistan by investing in energy security and reliability, logistics, digital infrastructure, skills development and technological upgrading. Second, there is a need to speed up the diversification of exports from textiles to high value-added products like engineering goods, pharmaceuticals, information technology services, electronics and agro-processing. Third, the Pakistan government must use the CPEC and Special Economic Zones to generate export-oriented FDI, especially from companies looking at "China+1" production approach. Fourth, there is a need to limit the excessive reliance on imported intermediate goods, through boosting local value addition and industrial capacities. Fifth, Pakistan needs to actively negotiate better market access for its exports with the United States and China and seek increased integration with regional and global markets.

Finally, the US-China trade war offered a fleeting moment of opportunity to Pakistan to grow its share in international trade. But the country's progress was limited by structural defects within the country and external imbalances that remained. Rather than the enduring US-China rivalry, the long-term benefits for Pakistan will hinge on their ability to enact economic reforms, boost competitiveness, attract productive investment and properly utilize their distinct geopolitical location between two world powers. This approach would allow Pakistan to benefit from trade diversion and make it more sustainable in order to achieve sustainable economic development.

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