
IMPLICATIONS OF THE US-CHINA TRADE WAR ON THE EXPORT OPPORTUNITIES OF SAUDI ARABIA

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ABSTRACT: *The persistent US-China trade balance deficit in favour of China, which reached more than US \$ 500 billion in 2018, has led to growing calls from US economists and policymakers for China to review intervention policy to devalue its exchange rate of Renminbi against the US dollar. China tried to increase the degree of competitiveness of its exports to the USA by keeping its exchange low. In the absence of a satisfactory solution to the United States regarding the need for China to adjust its exchange rate policy, US President Donald Trump announced on March 22, 2018 his intention to impose customs duties of 50 billion US dollars on Chinese imports based on Article 301 of The Trade Act of 1974, concerning unfair trade practices and infringement of intellectual property rights which came into effect by imposing customs duties on Chinese goods equivalent to \$ 50 billion on July 6, 2018. In response, China also decided to impose tariffs on 128 US imports, especially Soybean. Due to the large quantities it imports from the United States, the imposition of Chinese tariffs on them will affect US exports of soybeans on a large scale (He et al., 2019). US actions continued in this context, as the White House announced its intention to impose restrictions on Chinese investments inside the United States, and recently described US President Trump as China is manipulating the exchange rate of its currency Manipulator for commercial gains on US account.*

KEYWORDS: US-China trade war, implications, export opportunities, Saudi Arabia

INTRODUCTION: THE ROOTS OF THE PROBLEM

The persistent US-China trade balance deficit in favor of China, which reached more than US \$ 500 billion in 2018, has led to growing calls from US economists and policymakers for China to review intervention policy to devalue its exchange rate of Renminbi against the US dollar. China tried to increase the degree of competitiveness of its exports to the USA by keeping its exchange low.

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The economic effects of the US-China trade war on the world economy

Many analysts point out that the US's selective protectionist policy against China is aimed primarily at reducing the huge trade deficit in the US economy in favor of China, thereby reducing the overall trade deficit in the US trade balance with the outside world. However, some believe that taking measures against China is aimed at trying to stop its economic growth rates, especially since it has become the largest economy in the world after the United States of America.

In this context, the United States recognizes that the sustained and substantial economic growth in China depends on the strategy of maximizing exports. It is driven by external demand for Chinese products, and not mainly based on domestic demand, so that China will always maintain a high level of competitiveness of its products. Increased external demand for their products. In doing so, China usually depreciates its currency against other currencies to ensure that its products are priced lower than those of competitors globally, whether those who follow the strategy of export-led growth or compete with domestic products in economies that import Chinese goods.

In this context, the most important implications of the trade war between the United States of America and China can be presented as follows:

- The volume of China's exports to the United States is expected to decrease, as will the volume of US exports to China, thus reducing the volume of trade exchange between the two countries.
- The low volume of trade exchange between the two countries will decrease the production capacity of products and services which will be affected by the customs duties imposed by both parties.
- The international trade map of both countries can be returned. In an effort to search for alternative markets to discharge their products or to obtain alternative imports at competitive prices.
- If the US market is not compensated by alternative markets for the discharge of Chinese products, as is the case with American products, the growth rate of international trade is expected to decline, and thus the growth rates in the world economy will be affected, and the global economy will enter a recession that will all economies suffer, whether developed or developing countries.

Export opportunities for Saudi exports in light of the US-China trade war.

With US and Chinese tariffs facing each other's products, it is necessary to know the implications for the export opportunities of other countries. World in terms of GDP In this context, the imposition of tariffs on a large number of products by both the United States and China implies that the prices of these products (exports) have become so high that their competitiveness in the two markets is low. Thus, the presence of

complete or close substitutes for these products in Saudi Arabia will be of great benefit to Saudi exports, both to China and to the United States of America

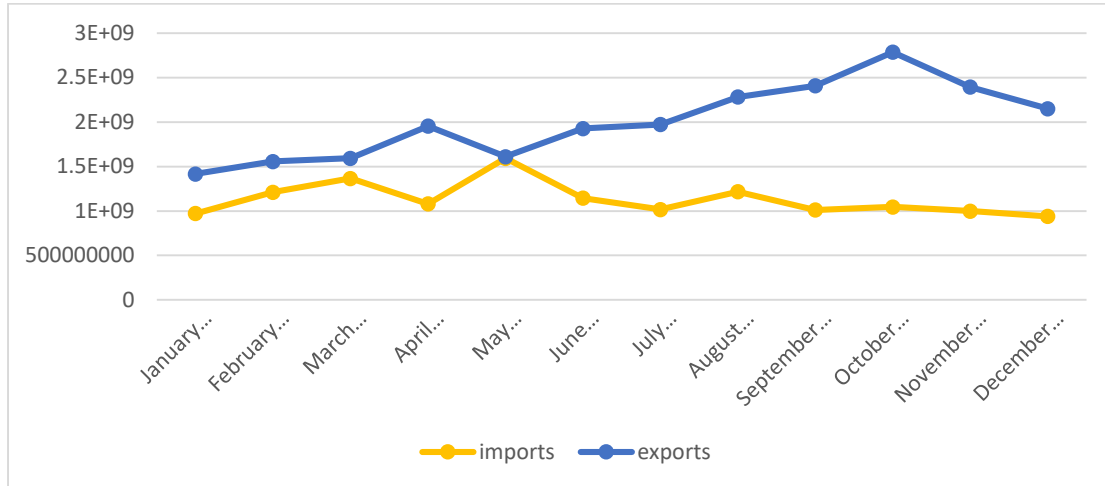


Fig 1 Exports and Imports of Saudi Arabia with US in 2018 (monthly)

Source: <https://www.census.gov/foreign-trade/statistics/country/index.html> accessed in 20/8/2019.

In view of the data of foreign trade with the United States, we note a positive development in Saudi exports compared to imports from the United States, as shown in Figures 1 and 2. Although exports declined in November and December of 2018, imports also decreased the same two months. In general, Saudi Arabia has a steady surplus in its foreign trade with the United States.

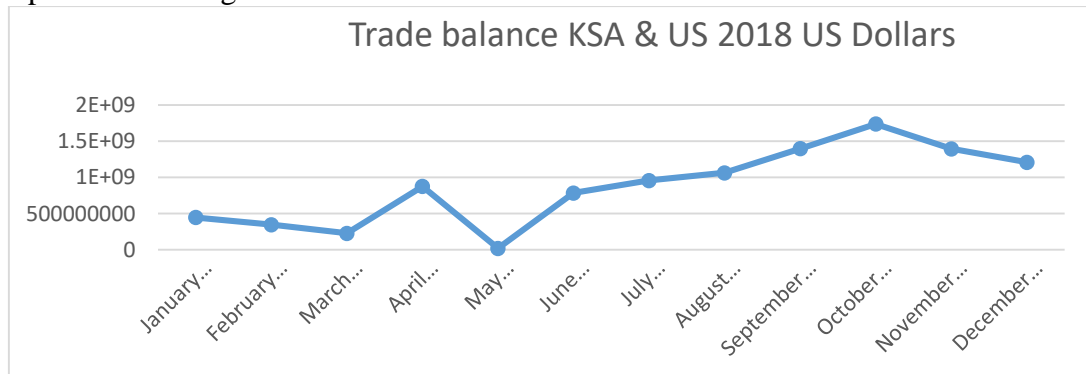


Fig 1 Trade balance with US

Source: <https://www.census.gov/foreign-trade/statistics/country/index.html> accessed in 20/8/2019.

The main problem in Saudi foreign trade is that it has a large deficit with China, as shown in Table 1 data, which shows a total deficit in the trade balance with China during 2016. This means that there is great potential for Saudi exports to China in case of continued tariffs on goods from the United States that will lose competitiveness in exchange for increased competitiveness of alternative product owners.

Table 1 Exports and imports of Saudi Arabia and China (2016)

Product Group	Export (US\$ Thousand)	Import (US\$ Thousand)
All Products	4135621.7	18840789.27
Capital goods	117961.21	7826215.35
Consumer goods	82968.9	7751672.28
Intermediate goods	3882672.05	3044136.83
Raw materials	52019.53	217236.27
Animal	150.93	11117.35
Chemicals	2585817.9	581777.51
Food Products	1019.2	141077.24
Footwear	121.6	583350.59
Fuels	0	24136.03
Hides and Skins	10887.75	370768.2
Mach and Elec	40355.52	7856466.32
Metals	49197.13	2229987.03
Minerals	15184.29	65284.35
Miscellaneous	34106.98	1734798.95
Plastic or Rubber	1247793.29	853441.32
Stone and Glass	15700.02	632620.52
Textiles and Clothing	11941.35	2168381.89
Transportation	119293.48	838272.78
Vegetable	2767.47	171115.41
Wood	1284.8	578193.78

Source:

<https://wits.worldbank.org/CountryProfile/en/Country/SAU/Year/2016/TradeFlow/EXPIMP/Partner/CHN/Product/all-groups#> accessed in 20/8/2019

CONCLUSION AND POLICY IMPLICATIONS

The trade war between China and the United States can be a great opportunity to reshape the structure and pathways of international trade among nations. In this case, Saudi exports of manufactured goods, agricultural and petrochemical industries could be a strong alternatives that could cover a considerable part of foreign trade with China and the United States of America. Saudi Arabia's production structure is the most important challenge that could reduce the ability of Saudi exports to be a substitute for Chinese and US products in both markets.

The study recommends the need to conclude bilateral trade agreements with China and the United State to provide alternatives to products that have become less competitive due to the imposition of tariffs from both countries against the other. It is worth mentioning that 35 bilateral economic cooperation agreements were signed between Saudi Arabia and the People's Republic of China with more than US \$ 28 billion within

the framework of the Saudi-Chinese Investment Forum in 2019 in order to increase the volume of non-oil trade exchange between the two countries.

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