**How the US-China Conflict Affects Asia**

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From the disputes over the South China Sea to accusations over international trade practices and pandemic response, tensions between the US and China are escalating.

Tensions between the two countries were triggered when the US placed sanctions on China, accusing the country of unfair trade practices. What ensued was a trade war that soon turned into a sort of a cold war based on differing ideologies.

Tensions reached their highest level when the US started a military build-up to contain the Chinese expansion in the South China Sea. This was further complicated by the coronavirus pandemic. China and the US are blaming each other for the origin of the virus and for alleged faults in pandemic response.

The US sees an ascending China as a threat to the stability of the region and seeks to contain it. China is, on the other hand, desperate over its perceived geopolitical vulnerability and its dependence on sea-bound trade.

The conflict has serious repercussions for the rest of Asia. China is the second-largest economy in the world. Its GDP is just under half of that of the entire continent. Asian countries rely on China for trade, both as a buyer of raw materials and as a manufacturing powerhouse. They also rely on Chinese investments.

Both US and China have the ability to project power throughout the continent. Any risk of further escalation will have a serious impact on Asian economies.

On the other hand, the US has is the largest economy and by far the largest military in the world. It is the only power capable of projecting force across the ocean. The US also has a powerful network of alliances in the region, as many countries feel threatened by China’s phenomenal rise.

The Association of Southeast Asian Nations (ASEAN) now serves that purpose. However, some ASEAN countries fear that the US may, at some point, leave them behind. If the US pursues more isolationist policies, these countries feel that they need to look for protection elsewhere.

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Rising tensions could lead to a decoupling, a relative cutting off of trade between the two countries. This could have a damaging impact on the Asian economy.

This could be brought about by higher tariffs or other barriers to trade. Ultimately, the trade war between the US and China is likely to lead to the creation of two rival trading blocks, one led by China and one led by the US.

Dividing the continent into two trading blocks would put a severe damper on the Asian economy. Without the ability to benefit fully from regional and global trade, the economy of all Asian countries would be stunted. This would likely translate to slower growth rates.

Limited trade is also likely to create further geopolitical conflict. International trade is one of the factors that limit conflict between countries. When countries are connected through trade, many people have a lot to lose if a conflict happens. That is why US business groups have repeatedly urged President Joe Biden to take a softer stance on China. Business is sometimes the most effective way towards peace.

When trade links are weakened, there are fewer people with a vested interest in them. The groups that benefit from trade lose influence. This can lead to a vicious spiral of tensions, trade sanctions, more tensions and further escalation. Ultimately, his could lead to a major conflict. The resulting geopolitical insecurity could further stunt investment and delay economic growth in the region.

China has an interest in diversifying its access to energy and international trade, and lessening its reliance on the Strait of Malacca. Currently, about 60% of China’s trade flows through the strait. That is the reason for the huge investment in transportation infrastructure in Pakistan, in form of the China-Pakistan Economic Corridor (CPEC).

The initiative consists of improving offers a massive platform for China and Pakistan to promote regional connectivity, trade growth, and infrastructure development. The CPEC’s effect on Pakistan has been compared to that of the Marshal Plan in post-WW2 Europe.

Some Asian countries could benefit from the trade war, at least in the short run. If Chinese companies face tariffs from the US other Asian countries, those geopolitically aligned with the US would have a competitive advantage. In fact, some researchers believe that this is already happening. The US is already levying tariffs as high as 25% on some Chinese imports and identified Vietnam as the clear winner of the tariff war.

To fully take advantage of that potential, these countries would need massive investments in infrastructure and manufacturing capacity, as well as in human capital. This transformation will require a lot of capital, and a lot of time.

However, this argument ignores the fact that China is a rapidly developing economy, no longer just a manufacturer of cheap consumer goods. As the Chinese economy develops, it will progressively become less of a competitor to the economies of Southeast Asia.

In fact, these economies are likely to benefit from their proximity to China. Labor costs in China may soon become high so that the country may soon start outsourcing many of its labor-intensive industries. Southeast Asian countries are a natural place for China to outsource these industries. This is due to geographic proximity and cultural ties. Furthermore, this would likely be accompanied by major Chinese investments. This means that the decoupling might only do what would have happened anyway.

On the other hand, splitting the continent into trade blocks would deprive Southeast Asia of trade opportunities with China, as well as of Chinese capital.

The conflict between the US and China – the two major powers, could lead to a split continent. This is clearly not in the interest of Asian countries. Asian countries want to benefit from Chinese trade.

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