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The Middle East and the U.S.-China 'Trade War'

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The price of oil is often directly related to global economic prospects, so Washington's tariff tiff with Beijing could hit regional states doubly hard.

Today's major economic dispute between the U.S. and China is not really a war, not even an economic one. Rather, it is mainly an escalating series of punitive tariffs, or taxes, that each country is starting to impose on imports from the other. The U.S. was first, slapping new tariffs of up to 25 percent on hundreds of billions of dollars of Chinese imports of various kinds. China then retaliated more or less in kind. And both sides are now threatening further steps in this vicious cycle.

In general, this kind of negative competition hurts the economies of both parties. The new taxes make imports more expensive, so consumers pay higher prices and buy less. As a result, overall trade declines, and with it economic growth in both countries. That is why many experts say there are no winners in trade wars, only losers—although one side may lose more than the other. For example, American agricultural exports to China, a major item, are already suffering significantly. This has pushed President Trump to allocate additional billions of government budget dollars to "save" those farmers hurt by the latest mutual tariff increases.

Why then did Trump start this trade war with China? In large part it seems to be an effort to put pressure on China to fix some of its other important economic policies: industrial espionage, intellectual property theft, compulsory technology transfers, massive government subsidies to selected industries, strict limits on foreign businesses in certain key sectors, and more. And many American observers—even some fierce liberal Trump critics like the famous *New York Times* columnist Thomas Friedman—actually agree that China is cheating on its commitments in these areas to the World Trade Organization, which it joined almost twenty years ago.

It is far from clear whether these new tariffs will be effective in improving China's record. But even if they aren't so effective, there remains a reasonable chance that the U.S. will stop short of escalating this cycle much further, simply in order to avoid greater mutual economic damage. In fact, some senior American policymakers are even now advising greater caution in this regard. My own best guess is that the U.S. and China will soon find ways to reach partial deals, rather than keep raising the stakes and the costs much higher and longer.

Nevertheless, one special circumstance, highly relevant here, is that any American president has great legal and practical authority to set tariffs and other international trade policies. This personal power derives from existing U.S. laws, such as the International Economic Emergency Powers Act and various related statutes. What is different today is that Trump is so eager to exercise that power, and in unusually sudden and drastic fashion. Indeed, in my discussions with Chinese officials and experts on this matter, whether in China, in Washington, or in the Middle East, I have been struck by their intense interest in this U.S. president's forceful but unpredictable decision-making style—including the fact that he sometimes abruptly changes his mind, even about highly sensitive and significant controversies.

Now, because the U.S. and China are the world's two largest economies (albeit with the U.S. still much bigger, and also much richer per capita), and because the two are major trading partners of each other, a decline in their trade will hurt not only their own economies but also the global economy as a whole. That is why, for example, stock markets around the world tend to fall on news of more U.S.-China trade tension, and to rise when that tension appears to ease.

This brings us, finally, to the impact of all this trade tension on the Middle East. If the U.S.-China "trade war" continues, and therefore leads to slower global economic growth or even global recession, that will almost certainly depress most Mideast economies as well. This is particularly true since the price of oil is often directly related to global economic prospects. When those prospects shrink, the price of oil also tends to fall—so many Mideast countries dependent on oil revenues would be hit doubly hard. This alone is probably the most important consequence for the region of all the ups and downs in U.S.-China economic relations.

Other effects could also be of some significance, even if indirectly. Both the U.S. and China might start to look elsewhere than toward each other for markets, economic inputs, and investment opportunities. To a certain extent, this could redirect some of their foreign economic activity toward selected Middle Eastern destinations. For example, China might increase its substantial construction and other economic exposure in a populous, relatively inexpensive Arab country like Egypt. Some American companies might react in similar ways.

In this context, a key point is that Mideast countries would not, for the most part, have to choose between stronger economic ties to either China or the U.S.—unlike, say, the current sanctions situation pushing them to choose sides economically between the U.S. and Iran. So to some degree, enhanced Chinese and American interest in Mideast business opportunities might mitigate the larger economic damage of the U.S.-China “trade war.”

Finally, however, there are a few critical areas where the Middle East actually might have to choose between the U.S. and China, especially if their bilateral economic relations continue to deteriorate. One such area is the broad domain of security-related trade and investment—whether in weapons, cyber technology, or sensitive raw materials. The growing use of telecom technology from the Chinese firm Huawei, and the sale of advanced American military equipment, are but two vivid cases in point. To the extent that the U.S. and China part ways economically with each other, each one may become even more concerned than before to corner the export market in such sensitive goods, and deny it to the other. Mideast countries would then come under greater pressure than ever to make tough decisions about these vital options, which are as much geopolitical as purely economic.

Altogether, then, the U.S.-China “trade war” is likely to have only limited or indirect effects on the Middle East. What effects those are will likely be largely negative, though perhaps with a few offsetting factors. Middle Eastern policymakers, therefore, would be well advised to look for some compromise resolution of the current trade tensions between those two far away economic giants. That would be better for their own sake, as well as for the sake of both the American and the Chinese economies.

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