Flash by EIC

SCB Economic Intelligence Center

19 September 2018

US-China Trade war heats up with new USD 200 billion tariffs on Chinese goods

Event

- On 18 September 2018, the US government announced new import tariffs on Chinese goods worth USD 200 billion at a rate of 10%. The new tariffs will become effective on 24 September 2018, and increasing to 25% on 1 January 2019, for 5,745 products (a reduction from the previous list of 6,031 products). The total value of goods affected is worth 8.3% of total US import in 2017. The introduction of new tariffs is a result of an investigation by the US showing intellectual property violations and unfair trade practices that are categorised under the Section 301 of the US Trade Act of 1947.

- At the same time, the Chinese government is also preparing a retaliating measure by imposing similar tariffs worth USD 60 billion on US goods at the rate of 5-25% (and may decrease to 5-10% in the future) for 5,207 products. The value of import for these products from the US is 3.3% of the total import figure for China in 2017, and the Chinese tariffs will become effective immediately once the US enforces their tariffs.

Analysis

- **The US-China trade war resulted in a total of USD 250 billion worth of Chinese goods being targeted by the US tariffs, while USD 110 billion worth of US goods are affected by China's tariffs.** Trade war between the US and China has been ongoing since late August with an additional USD 50 billion worth of new tariffs being introduced by both countries in the last round. In this round, the US offered the explanation of unsatisfactory response by the Chinese government on trade reforms as the reason behind their introduction of new tariffs. President Trump also threatened further tariffs worth USD 267 billion on goods being imported from China (Figure 1) if the Chinese government continue to refuse to comply with the US's requests as well as to reduce trade deficits between the two countries. Meanwhile, the Chinese government retaliated by increasing tariffs on imports from the US while announcing that China is ready to impose every measure to protect the country's interests if the US refuses to drop trade restrictive measures. On the escalating trade war, EIC views that the US has a larger room for imposing additional tariffs worth USD 267 billion on goods from China, as the total import of goods from China to the US in 2017 was worth USD 505 billion. On the other hand, China does not have similar room for announcing new tariffs, as the total value of imports from the US in 2017 was USD 129 billion. With this in mind, China may have to use non-tariff measures such as investment restrictions and limiting freedom of service trade on US companies instead.

- **In the latest list of USD 200 billion worth of Chinese goods targeted by the US, some products were removed but the proportion of consumers goods targeted rise significantly when compared to previous round.** In the last round, the US introduced tariffs worth USD 50 billion on Chinse goods (Further details can be found in EIC Flash: US-China trade war erupts after the US announced new tariffs and China continues to retaliate, published on 18 June 2018). In that round, consumer goods accounted for only 1% of the total affected products (Figure 2) since most goods in the list were intermediate and capital goods, of which the US can easily find replacement sources. However, in the latest round with USD 200 billion worth of goods, there is a lower proportion of intermediate and capital goods while the proportion of consumer goods has risen sharply to 22% when compared to the last round. EIC views that this development can have a considerable impact on the US's inflation rate, leading to an increase in burdens for both consumers and manufacturers in the US. Chinese goods that are affected in this round are products under the "Made in China 2025" policy that is focusing on technological products including telecommunication equipment, computer parts, other intermediate goods, as well as consumer products such as light bulbs and lamps, suitcases, and so on.

- **China prepares to retaliate by announcing tariffs on goods from the US worth USD 60 billion, with a consideration on limiting impacts on the Chinese consumers** Currently, China is planning to introduce new tariffs on US goods that will amount up to a total of USD 110 billion, or 85% of total import on goods from the US. Consequently, China will have less room to manoeuvre in the future when planning to further their tariff retaliation policy. Thus, China will not be able to match the value and the rate of new tariffs when the US announces further tariffs. For this round of retaliation, China divides their goods and tariffs into 4 categories which are 25%, 20%, 10%, and 5%. Goods with lower import shares from the US will be allocated higher tariffs than goods with high import shares. This strategy is designed with the aim of having as little impact on the Chinese consumers as possible. The Chinese government is currently revising the list of goods that will be targeted by the tariffs and may also reduce the final tariffs to 5% to 10%. While the details on new tariffs are yet to be confirmed by the Chinese government, the preliminary list of goods (Figure 3) is:

  - **US goods with a 25% tariff rate** totalling 2,493 products worth 2% of the total import from the US. Goods that are most affected by the tariffs will be LNG, copper, and products based on pine wood respectively.
  - **US goods with a 20% tariff rate** totalling 1,078 products worth 9% of the total import from the US. Goods that are most affected by the tariffs will be machinery parts, optical devices, and certain types of hardwood respectively.
  - **US goods with a 10% tariff rate** totalling 974 products worth 19% of the total

import from the US. Goods that are most affected by the tariffs will be computer parts, processed food, and laser products respectively.

- **US goods with a 5% tariff rate** totalling 662 products worth 25% of the total import from the US. Goods that are most affected by the tariffs will be pulp, medical equipment, and raw leather respectively.

- **There has been no strong response from the global financial market, but the effect from escalating trade war is being felt by the Chinese economy.** The US financial market (S&P 500) dropped around -0.56% while the Chinese financial market (CSI 300) increased by 1.75%. The USD index (DXY) reduced slightly by -0.03% and the comparison between Yuan to USD (USDCNY) appreciated slightly by 0.08% on the day of the tariffs' announcement. It is evident that the financial market did not have a strong response nor react in the significantly negative way. This is because investors were already expecting the tariffs being imposed in the latest round. The final tariff rates were also lower than the predicted 25% for both sides at the current 10%. Nevertheless, EIC views that the increasing number of new tariffs announced by the US and China will have implications for both countries as they would not be able to readily find new source countries for importing equivalent products. In this vein, the trade war will begin to have increasingly recognizable impacts on both countries' trade and economy. Furthermore, it is expected that changes to the supplier and production network will then lead to increase costs that will affect both domestic and international producers, as well as consumers who will be exposed to higher prices. In addition, businesses' investment decision could also be impacted in the future. Meanwhile, EIC expects that the Chinese economy will be more strongly impacted in both the stock market and the economy, due to worries of the investors and the export slowdown. This is reflected in the CSI 300 index that reduced by 20% since the beginning of the year. While the overall picture indicates that exports from China still grew 9.8%YOY in August, province-level economies are showing a sign of slowdown, especially in Guangdong, one of China's most important provinces for manufacturing and export that accounts for 11% of China's GDP and 28% of the total export. The region's Purchasing Managers' Index (PMI) indicates that the figure for Guangdong has been decreasing with the latest figure at 49.3 (PMI lower than 50 suggests contraction) in August. Based on the reducing figure in important provinces, it is plausible to suggest that China's export may experience a slowdown soon.

- **The US may impose new tariffs worth USD 267 billion, introduce automobile tariffs based on section 232, and renegotiate the new NAFTA agreement.** After announcing the tariffs worth USD 250 billion, President Trump also threatened further tariffs worth USD 267 billion on China. If all mentioned tariffs are imposed as suggested, the growth of the Chinese economy, as well as China's trading partners, will be strongly affected in the next year. Additionally, it is worth keeping an eye on the US's assessment on imports for automobiles and parts under section 232, with a view to introducing national security tariffs at the 25% rate that is worth around USD 275 billion (Figure 4). The assessment is currently being reviewed by the US Department of Commerce. EIC expects that outcomes from the negotiation of the new NAFTA agreement will have a strong consequence on the possibility of introducing tariffs under the automobiles and parts for other countries including Thailand. If the US does not reach an acceptable outcome from the new NAFTA negotiation, as well as reaching satisfactory agreement with Canada, the EU, and Japan, who account for high share of exports in the automobile categories to the US, it is expected that the US will follow through on the introduction of the automobile and part tariffs. While EIC analysis suggests that the US is unlikely to impose the threatened high tariffs on automobiles due to subsequent impacts on US automakers and consumers, automobile exporting countries including Thailand still face a possible threat from the US based on re-negotiation of import terms that may conclude with countries being asked to self-limit the amount of exports or to exports under quota set by the US. Such an example can be found in the steel industry where South Korea was willing to self-limit their steel export to the US, leading to the country being exempted from the steel tariff under section 232 of the US Trade Act.

Implication

- **EIC adjusts the figure on the impact of trade war on Thai exports by increasing the rate of impact from 1.1% to 6.1% of total exports.** The ongoing trade war is likely to have increasing impacts on global production chains and global trade. Such impacts are evident on Thai exports when the value of exports to the US and China is considered. In the first half of this year, global trade flow has slowed down slightly as a consequence of stagnant growth in several countries. Additionally, global trade is negatively influenced by the ongoing trade war between the US and China. The large impacts of new tariffs are limited to the two countries, but there are knock-on implications for other countries that are linked to the US and China's supply chains. This is especially applicable to trade in goods that are primary and intermediate products and facing increasing impacts. As Thailand is an important part of China's supply chain and will be strongly affected should the Chinese economy experinece a slowdown. EIC, therefore, adjusts the rate of impact of trade war on Thai exports by increasing the rate of impact from the previous 1.1% to 6.1% (Figure 5) of the total export value. This percentage reflects a high-risk level in the context of Thailand not being able to export products to China and the US while also not being able to find substitute markets. Main product categories that will be affected are those in the primary and intermediate categories, such as computer and parts, plastic and plastic-based products, plastic resin, electrical parts, rubber and rubber-based products, and wood. While effects from the US-China trade war on Thai exporters are still limited at present, it is likely to become more pronounced in the fourth quarter of 2018 and into next year. This topic must be carefully assessed by businesses relying on exporting to

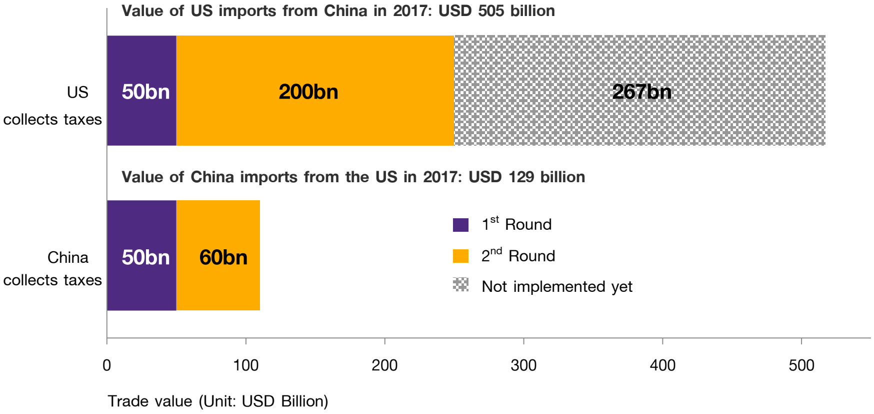
China and the US. As for the previously announced tariffs by the US that already took effect, Thai exports are starting to be impacted. Based on data from July 2018, it is found that exports of washing machines and solar panels to the US declined by 24.9%YTD and 64.6%YTD respectively. Meanwhile, exports of steel and aluminium still increased by 0.53%YTD and 30.5%YTD. Overall, the total export from Thailand to the US declined by 1.9%YOY.

- **Although Thai exports face increasing risks from the trade war, the country may benefit indirectly from Chinese companies moving their production base to Thailand, as well as through increasing opportunities to export other goods.** On production relocation to Thailand, especially from China, manufacturers are beginning to move some parts of their production into Thailand and to use Thailand as the base for exports to the US in order to reduce impacts from the tariffs. Additionally, manufacturers from China and the US may consider finding new sources of raw materials and substitute products to reduce impacts from the trade war. Consequently, Thailand has the opportunity to benefit from exporting these products to the US and to China if the two countries reduce trade among themselves. Goods that may be benefited include chemical products, machinery equipment and parts, some automobile parts, wood and products based on wood. Since the global economic growth and global trade remain in a healthy position, EIC expects Thai exports to continue to grow well at 8.5%YOY, as negative impacts from the trade war are only felt by goods that are especially targeted, including washing machines, solar panels, steel and aluminium alongside primary products being exported to China for production and for assembly for re-export such as plastic products, rubber, and wood.

- **Thailand could face the risk of GSP removal due to increasing trade tensions and tough trade condition investigation by the US.** Although the US extended GSP for Thailand on 23 March 2018 to 2020, the National Pork Producers Council filed a petition to the USTR in March 2018 for Thailand's GSP to be reviewed with a view to limiting or to remove such a benefit. The council argued that Thailand's import restrictions on pork hurt the US farmers since pork is an important agricultural export of the US. Thailand currently receives a high value of benefits from the GSP worth around USD 4.2 billion in 2017. With increasing trade tensions and the stringent trade investigation by the US, EIC views that Thailand still faces a possible risk of having some parts of the GSP removed. In 2017, the US has a trade deficit of around USD 20 billion with Thailand. Therefore, it is possible that the trade deficit figure and the request for Thailand to open-up the pork market for the US could be used as leverages for negotiation or as bargaining chips against Thailand's GSP renewal or benefit reduction.

■ **Uncertainties in the global financial market, especially in capital flows, are likely to impact the value of Thai Baht in the future.** Although the global financial market only had limited responses to the latest introduction of protectionist measures by the US, risks from unsuccessful negotiation with China and the introduction of additional tariffs to other trade partners including the EU and Japan remain. These risks can lead to the global financial market adopting the risk-off sentiment against stock markets in emerging economies. Subsequently, it could lead to a sudden capital withdrawal from these markets. Nevertheless, the Thai export sector does not have a strong link with China's technological goods sector and is not directly affected nearly as much by the trade war when compared to Taiwan, Malaysia, South Korea, and Singapore. Coupled with Thailand's strong external position and possibly limited impacts of the trade war on Thailand this year, EIC expects the value of Thai Baht to have a lower fluctuation when compared to neighbouring countries. At this stage, Thai Baht is expected to be valued at around 32 – 32.5 THB per USD at the end of 2018.

Figure 1: Trade war heats up after the US announced additional tariffs on Chinese goods worth USD 200 billion. The US also threatened further tariffs worth USD 267 billion if China retaliates.

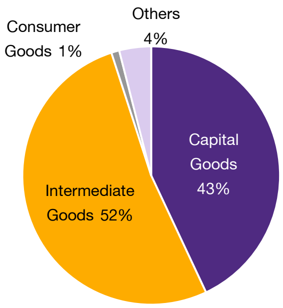


Source: EIC analysis based on data from USTR (as of 19 September 2018)

Figure 2: Chinese goods affected by the 10% tariff are worth USD 200 billion. The latest list included a higher percentage of consumer goods at 22%, an increase from 1% in the previous round.

Chinese goods affected by tariff in the USD 50 billion round

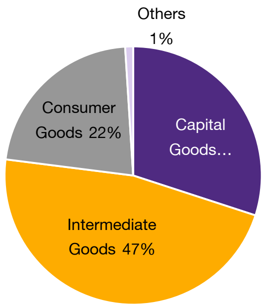
Unit: % of total value of goods



Note: List of goods as of June 2018 (1st round)

Chinese goods affected by tariff in the USD 200 billion round*

Unit: % of total value of goods



Note: List of goods as of September 2018 (2nd round)

Note: * Effective on 24 September 2018

Source: EIC analysis based on data from USITC and Peterson Institute For International Economics (as of 19 September 2018)

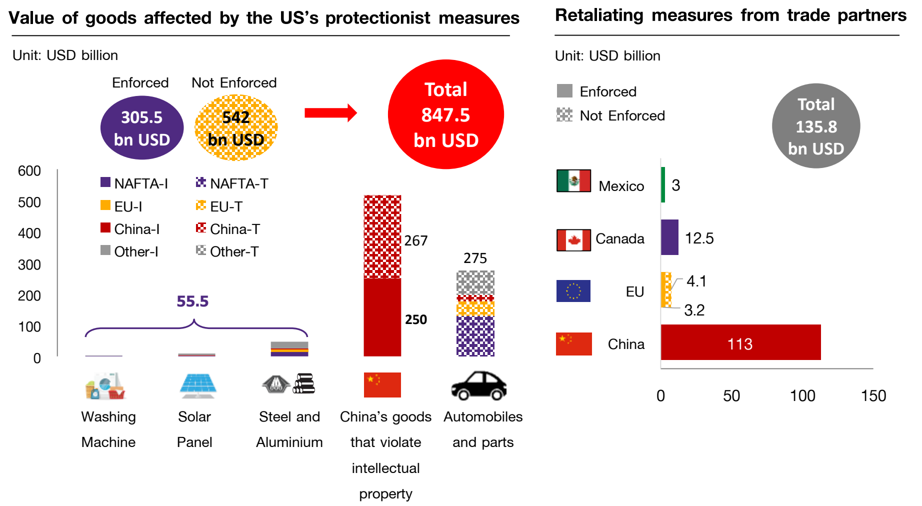
Figure 3: The US imposed tariffs on Chinese goods worth USD 200 billion at 10% rate. China is planning to retaliate by introducing tariffs on goods from the US worth USD 60 billion.

The US imposed tariffs on Chinese goods	China is planning to introduce tariffs on goods from the US (value of goods worth around USD 60 billion)			
10% Rate (increase to 25% in 2019)	25% Rate	20% Rate	10% Rate	5% Rate
	may decrease to 10%*		may decrease to 5%*	
USD 200 billion	USD 10 billion	USD 10 billion	USD 16 billion	USD 18 billion
5,745 products	2,493 products	1,078 products	974 products	662 products
• **Telecommunication equipment** • **Computer and parts** • **Furniture**	• **Liquid natural gas (LNG)** • **Copper ore** • **Oak wood products**	• **Mechanical appliances** • **Optical instruments** • **Certain hard wood products**	• **Computer and parts** • **Processed food** • **Laser products**	• **Wood pulp** • **Medical instruments** • **Raw hides and skins**
Effective on 24 September 2018	Immediately after the US enforces their tariffs on 24 September 2018			

* The Chinese government is considering amending the list of goods and adjusting tariff rates to 5-10%

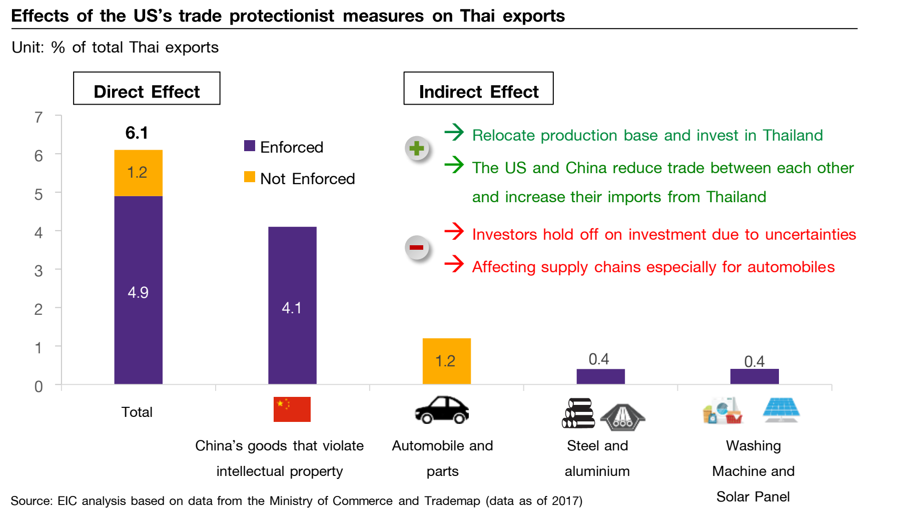
Source: EIC analysis based on data from USTR and Ministry of Finance China (as of 19 September 2018)

Figure 4: The US could impose additional tariffs worth USD 267 billion on Chinese goods and introduce tariffs on automobiles based on Section 232 worth USD 275 billion from important trade partners globally including Japan and the EU.



Source: EIC analysis based on data from Goldman Sachs, USTR, and media (as of 19 September 2018)

Figure 5: Direct effect on Thai exports is still limited this year, but risks are becoming more pronounced. Indirect effect could have negative consequences such as slowdown in investment, as well as positive outcomes including relocating production base and increasing export opportunities for some products.



Source: EIC analysis based on data from the Ministry of Commerce and Trademap (data as of 2017)

Note: The proportion reflects maximum damage based on assumption that Thailand cannot export to the US and China and cannot find substitute markets

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