US-CHINA TRADE WAR: MOVING TO SECTORAL AND THIRD COUNTRY IMPACT

Alicia Garcia Herrero – Chief Economist, Asia Pacific
+852 3900 8680 – alicia.garciaherrero@natixis.com
1. Where are we in terms of import tariffs?
2. Sectoral impact on China
3. Sectoral impact on Developed Asia
4. Potential sectoral gains in Europe
5. Potential sectoral gains in Japan
6. Medium-term impact on Emerging Asia
7. In conclusion
WHERE ARE WE IN TERMS OF IMPORT TARIFFS?
The trade is back to the forefront of the news which might push back trade flows again.

Source: Natixis, GDELT, Bloomberg
### Why such a negative sentiment?

**Much more than a trade war**

#### Table 1: US trade measures

<table>
<thead>
<tr>
<th>Type of product</th>
<th>Solar panels/ washing machines</th>
<th>Steel / aluminium</th>
<th>Intellectual property (1102 products valued at $50bn)</th>
<th>Intellectual property (6031 products valued at $200bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rules</strong></td>
<td>Section 201</td>
<td>Section 232</td>
<td>Section 301</td>
<td>Section 301</td>
</tr>
<tr>
<td></td>
<td>Import relief for domestic industries</td>
<td>National security</td>
<td>Intellectual property laws</td>
<td>Intellectual property laws</td>
</tr>
<tr>
<td><strong>Effective Date</strong></td>
<td>7-Feb-18</td>
<td>23-Mar-18</td>
<td>25 percent additional duty effective on 6 July 2018 for 818 products (worth $34bn) included in the proposed list on 6 April 2018, and 279 products (worth $16bn) on August 23, 2018.</td>
<td>Tariff hiked from 10 percent to 25 percent on May 10, 2019 (effective on Jun 1, 2019)</td>
</tr>
<tr>
<td><strong>Exemption</strong></td>
<td>‘GSP-eligible’ developing nations*</td>
<td>Australia, Argentina, Brazil and South Korea**</td>
<td>Targeted at China</td>
<td>Targeted at China</td>
</tr>
<tr>
<td><strong>Applied to China</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Retaliation from China</strong></td>
<td>N/A</td>
<td>Tariffs on $3 billion of 128 products including pork, fruit, nuts and wine of up to 25 percent</td>
<td>25 percent duty effective on 6 July 2018 for 545 products valued at about $34 billion and 333 products valued at about $16 billion effective on August 23, 2018</td>
<td>5140 products valued at $60bn (duties of 5 percent on 595 products, 10 percent on 974 products, 20 percent on 1078 products and 25 percent on 2493 products) effective on Jun 1, 2019</td>
</tr>
</tbody>
</table>

* Source: Bruegel based on Natixis, US Government.

**Notes:**

* Philippines and Thailand are not excluded, even though they are GSP-eligible.

** Exclusions from US steel and aluminium tariffs may take 90 days.
Some potential explanations for the choice of products on which import tariffs have been imposed

- The first USD 50 billion package aimed at containing China from exporting higher end products which compete with US
- The second focusing on moving value chain away from China (reshoring or delocalization in other geographies)

A comparison of the US-China targeted products released in June and July (%)

Decomposition of US' imports from China under the 200 billion tariff list

Source: Natixis, USITC, UN Comtrade
2 SECTORAL IMPACT ON CHINA
Chinese corporates increasingly dependent on overseas revenues

Proportion of overseas revenue (%)

Source: Natixis, WIND  N.B. Estimated from A shares
ICT and consumer durables are the most exposed

Proportion of overseas revenue by sector (%)

Source: Natixis, WIND  N.B. Estimated from A shares
3 SECTORAL IMPACT ON DEVELOPED ASIA
Cross-fire of trade-war: Asia is right in the middle of it

**Manufactured goods at the center of trade war ($ bn)**

- US goods affected by tariffs
- Chinese goods affected by tariffs

<table>
<thead>
<tr>
<th>Category</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Live Animals</td>
<td>Meat, Wheat, Orange juice, Coffee, Tea</td>
</tr>
<tr>
<td>Beverages &amp; Tobacco</td>
<td>Wine, Beer, Tobacco</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>Rubber, Cotton, Iron ore</td>
</tr>
<tr>
<td>Fuels &amp; Lubricants</td>
<td>Coal, Crude oil, Natural gas</td>
</tr>
<tr>
<td>Animal &amp; Vegetable Oils</td>
<td>Olive oil, Corn oil</td>
</tr>
<tr>
<td>Chemicals</td>
<td>Salt, Fertilizers, Plastics</td>
</tr>
<tr>
<td>Manufactured Goods</td>
<td>Paper, Textiles, Cement, Iron &amp; Steel, Copper</td>
</tr>
<tr>
<td>Machinery &amp; Transport Equipment</td>
<td>Computer equipment, Televisions, Cars</td>
</tr>
<tr>
<td>Miscellaneous Manufactures</td>
<td>Furniture, Clothes, Footwear, Cameras, Books, Toys</td>
</tr>
<tr>
<td>Commodity and transactions</td>
<td>Coin, Gold</td>
</tr>
</tbody>
</table>

Cross-fire of trade-war: Asia is right in the middle of it (high-tech exposure high)

Telecommunication equipment (% of total)

- Export
- Import

Source: Natixis, UNCTAD
N.B.: Classification according to SITC3-Section

Semiconductors (% of total)

- Export
- Import

Source: Natixis, UNCTAD
N.B.: Classification according to SITC3-Section

Automobiles (% of total)

- Export
- Import

Source: Natixis, UNCTAD
N.B.: Classification according to SITC3-Section
Not only is dependence on manufacturing high, export exposure to the US and China also very high for manufacturing.

Source: Natixis, UNCTAD
At the company level, hard to tell how value chains will play into the picture: US quite dominant in semiconductor space

Suppliers (% of COGS)
- Samsung C&T Corp 23.8%
- Samsung SDS Co Ltd 5.5%
- Lam Research Corp 10.1%
- Applied Materials Inc 6.7%
- ASML Holding NV 6.7%
- Tokyo Electron Ltd 6%

Clients (% of Revenue)
- Apple Inc 6.8%
- Verizon Communication 1.7%
- Best Buy Co Inc 1.4%
- AT&T Inc 1.3%
- Deutsche Telekom AG 1.9%
- Huawei 1.4%
China more prominent for Apple than for Samsung

Suppliers (% of COGS)
- Hon Hai Precision 52.3%
- Quanta Computer 14.7%
- Pegatron Corp 12.3%
- Foxconn Industrial 10.3%
- Samsung Electronics 6.8%
- LG Display 4.5%

Clients (% of Revenue)
- Verizon Communication 6.0%
- AT&T 4.8%
- T-Mobile 3.2%
- Sprint Corp 2.1%
- Best Buy Co Inc 1.9%
- China Mobile Ltd 5.0%
POTENTIAL SECTORAL GAINS IN EUROPE
EU companies are exporting more similar products as the US counterparts than the ones from China

- Top 10 Chinese imports (at the ISIC 2-digit level) from the US and the EU are exactly the same: Transport equipment, Motor vehicles, Medical instruments, Machinery & equipment and Chemicals

**China’s top 10 imports from the US in 2016 (USD bn)**

- Chemicals
- Transport equipment
- Motor vehicle
- Medical instruments
- Machinery and equipment
- Extra-territorial organizations...
- Food products and beverages
- Basic metals
- Electrical machinery
- Agriculture

**China’s top 10 imports from the Europe-5 in 2016 (USD bn)**

- Motor vehicle
- Machinery and equipment
- Chemicals
- Medical instruments
- Transport equipment
- Electrical machinery
- Food products and beverages
- Fabricated metal products
- Rubber and plastic products
- Basic metals

Source: Natixis, UN Comtrade

N.B. Europe-5 includes Germany, the UK, France, Italy and Spain
Much more different export structure between Europe and China to the U.S. markets

- If the US and China are crowding out each other’s exports, the EU’s exporting structure would suggest more chances in China’s market.

The US’ top 10 imports from China in 2016 (USD bn)

- Office, accounting and computing
- Radio, television and communication
- Furniture
- Machinery and equipment
- Electrical machinery
- Wearing apparel
- Tanning and dressing of leather
- Textiles
- Rubber and plastics products
- Fabricated metal products

Source: Natixis, UN Comtrade

US top 10 imports from the European-5 in 2016 (USD bn)

- Chemicals
- Motor vehicles
- Machinery and equipment
- Transport equipment
- Medical instruments
- Food products and beverages
- Electrical machinery
- Basic metals
- Recreational, cultural and…
- Furniture

Source: Natixis, UN Comtrade
N.B. European-5 Includes Germany, the UK, France, Italy and Spain
Europe can fill in the gap left by the US and China due to their punitive tariffs

- For the first round of $50 billion tariff, potential sector gains are higher in the U.S. market than in Chinese market.

**Europe’s gain in US’ market for the first 50 bn tariffs on China (for sectors > $1 bn)**

- **General purpose machinery**
- **Medical appliances and instruments**
- **Special purpose machinery**
- **Electricity distribution and control apparatus**
- **Electric motors, generators, transformers**
- **Furniture**

**Possible maximum gains : 39 billion**

Source: Natixis

**Europe’s gain in China’s market for the first 50 bn tariffs on the US (for sectors > $1 bn)**

- **Aircraft and spacecraft**
- **Basic chemicals**
- **Chemical products**
- **Plastics**
- **Motor vehicles**

**Possible maximum gains : $30 billion**

Source: Natixis
For the $200 bn additional US tariffs on China ($60 billion from China to US), potential gains for Europe could be even bigger (if no side is taken) but with capacity constrains

- Potential replacement of Chinese export contributes to $97.6 bn maximum gains (50% of total products targeted) because of limited capacity of European exporters.

- For China’s market, more than 60% of US exports targeted by China can be substituted (or a maximum of $38.5 bn), mainly in medical and chemical industry.

Source: UN Comtrade and the concordance table from WITS. The calculation of the sector’s maximum market gain is based on all the related goods in the second round of the tariff lists. The solid part of the bar indicates the EU’s current exports to the destination market.
5 POTENTIAL SECTORAL GAINS IN JAPAN
Trade war: Limited direct effects

- While US tariffs on Japan’s exports of steel and aluminum have been lifted, their direct effects are limited to about 0.3% of overall exports, as Japan specializes in exporting capital goods.

Japan: Share of Overall Products (2017, %)

- Iron & Steel: 4.2%
- Aluminum: 0.3%

Sources: NATIXIS, MoF

Japan: Trade Specialization Coefficient *

*(Exports - Imports) / (Exports + Imports)

Sources: Datastream, NATIXIS
US-led trade war against China: in principle a bad news but...

- As overseas production has expanded, higher global tariffs can have negative indirect effects on the Japanese economy through the supply chain network and on business sentiments.
If no deal is reached and both US and China keep their bilateral import tariffs, Japanese exporters could be a potential winner as export structure into China very similar to that of the US.

- Semiconductors, motor vehicles and chemicals are competing head to head in the Chinese market.

### China's top 10 imports from Japan in 2017 (USD bn)

- Electronic valves and tubes
- Special purpose machinery
- Motor vehicles
- Optical instruments
- Basic chemicals
- Parts for motor vehicles
- Electricity distribution apparatus
- Other chemical products
- Basic iron and steel
- Plastics products
- Basic precious metals

### China's top 10 imports from the US in 2017 (USD bn)

- Aircraft and spacecraft
- Growing of cereals
- Motor vehicles
- Electronic valves and tubes
- Basic metals
- Goods not elsewhere classified
- Instruments for measuring
- Other chemical products n.e.c.
- Plastics in primary forms
- Basic chemicals

Source: Natixis, UN Comtrade
The maximum gains bigger in China’s market substituting US goods

Japan's gain in US's market for 250bn tariff on US (for sectors > $1bn)

Possible maximum gains: $25.9 bn

Sources: Natixis, UNcomtrade
N.B.: Classification according to ISIS-Rev3

Japan's gain in China's market for 110bn tariff on US (for sectors > $1bn)

Possible maximum gains: $65.2 bn

Sources: Natixis, UNcomtrade
N.B.: Classification according to ISIS-Rev3
MEDIUM-TERM IMPACT ON EMERGING ASIA
Impact of US-China trade war to have very limited benefits in the short-term

China dominates labor-intensive manufacturing market share

Source: Natixis, UNCTAD
In the medium-run, though, there will be winners in the rest of Asia and not only because of trade tariffs. Increasing costs in China even more important.

Manufacturing Worker Monthly Wage ($USD)

Source: Natixis, JETRO
Companies are already reacting to ASEAN long term competitiveness in manufacturing

**Estimated FDI inflows 2018 H1 (bn USD)**

- ASEAN: 73
- China: 70.2
- India: 25

**Foreign Direct Investment (USD bn)**

- Sources: Natixis, UNCTAD

**Sources:** Natixis, CEIC
In the medium run, the countries in emerging Asia to benefit the most are different depending on the industry (labor or capital intensive)

Table 2. Country rank by Manufacturing Group

<table>
<thead>
<tr>
<th>Country</th>
<th>Medium-tech capital-intensive</th>
<th>Labor-intensive</th>
</tr>
</thead>
<tbody>
<tr>
<td>CN</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>ID</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>IN</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>ML</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>PH</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>TH</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>VN</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Natixis, UNCTAD, Jetro, UN Population Statistics, World Bank, Global Petro
In conclusion

- The trade war is spreading in terms of sectors and countries affected.
- Not all sectors or countries will be losers, though
- Winners and losers differ depending on the time horizon:
  - Short-term winners might be some European sectors, especially in the auto/aerospace
  - Also Japan’s semiconductor industry
  - In the medium-run, emerging Asia could benefit from the offshoring of value chain away from China, especially in Vietnam for labor intensive products and Thailand for capital intensive ones
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