



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

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- 1. Where are we in terms of import tariffs?**
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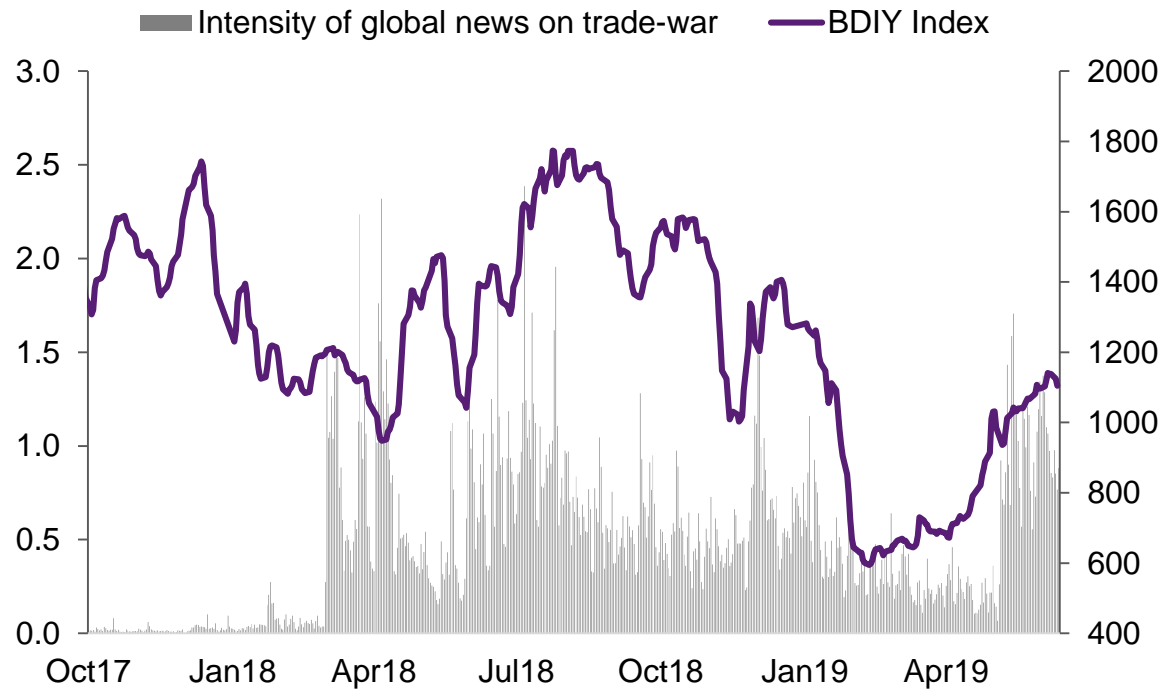
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# WHERE ARE WE IN TERMS OF IMPORT TARIFFS?



# The trade is back to the forefront of the news which might push back trade flows again

Trade flows and intensity of global news on trade war



Source: Natixis, GDELT, Bloomberg

# Why such a negative sentiment? Much more than a trade war

Table 1: US trade measures

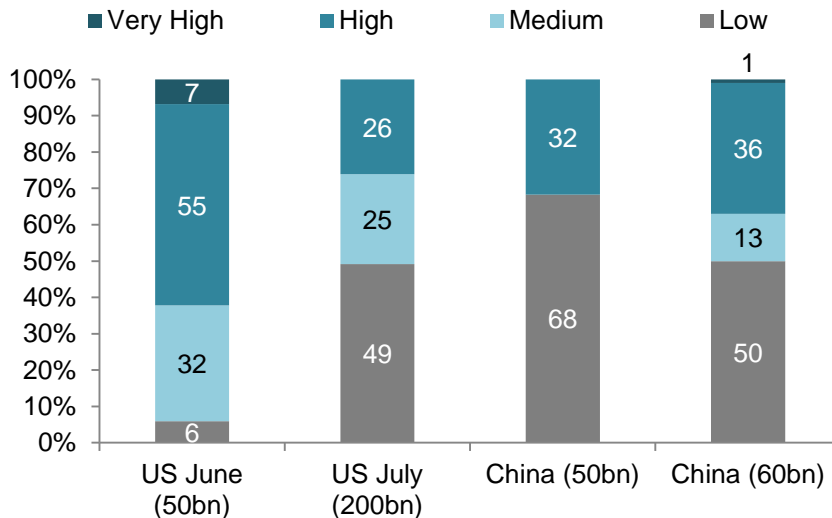
Type of product	Solar panels/ washing machines	Steel / aluminium	Intellectual property (1102 products valued at \$50bn)	Intellectual property (6031 products valued at \$200bn)
<b>Rules</b>	Section 201 Import relief for domestic industries	Section 232 National security	Section 301 Intellectual property laws	Section 301 Intellectual property laws
<b>Effective Date</b>	7-Feb-18	23-Mar-18	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.	Tariff hiked from 10 percent to 25 percent on May 10, 2019 (effective on Jun 1, 2019)
<b>Exemption</b>	'GSP-eligible' developing nations *	Australia, Argentina, Brazil and South Korea **	Targeted at China	Targeted at China
<b>Applied to China</b>	√	√	√	√
<b>Retaliation from China</b>	N/A	Tariffs on \$3 billion of 128 products including pork, fruit, nuts and wine of up to 25 percent	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	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

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

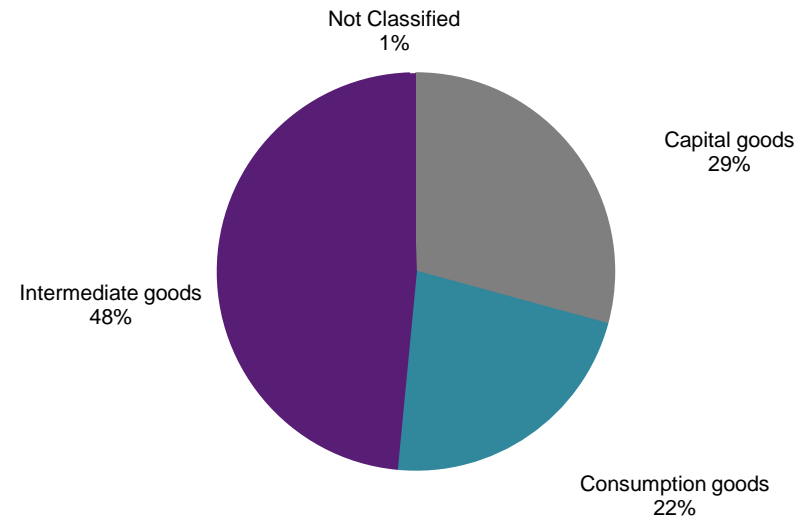
- The first USD 50 billion package aimed at containing China from exporting higher end products which compete with US
- The second focusing on moving value chain away from China (reshoring or delocalization in other geographies)

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



Source: Natixis, USITC, UN Comtrade

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



Source: Natixis, USTIC

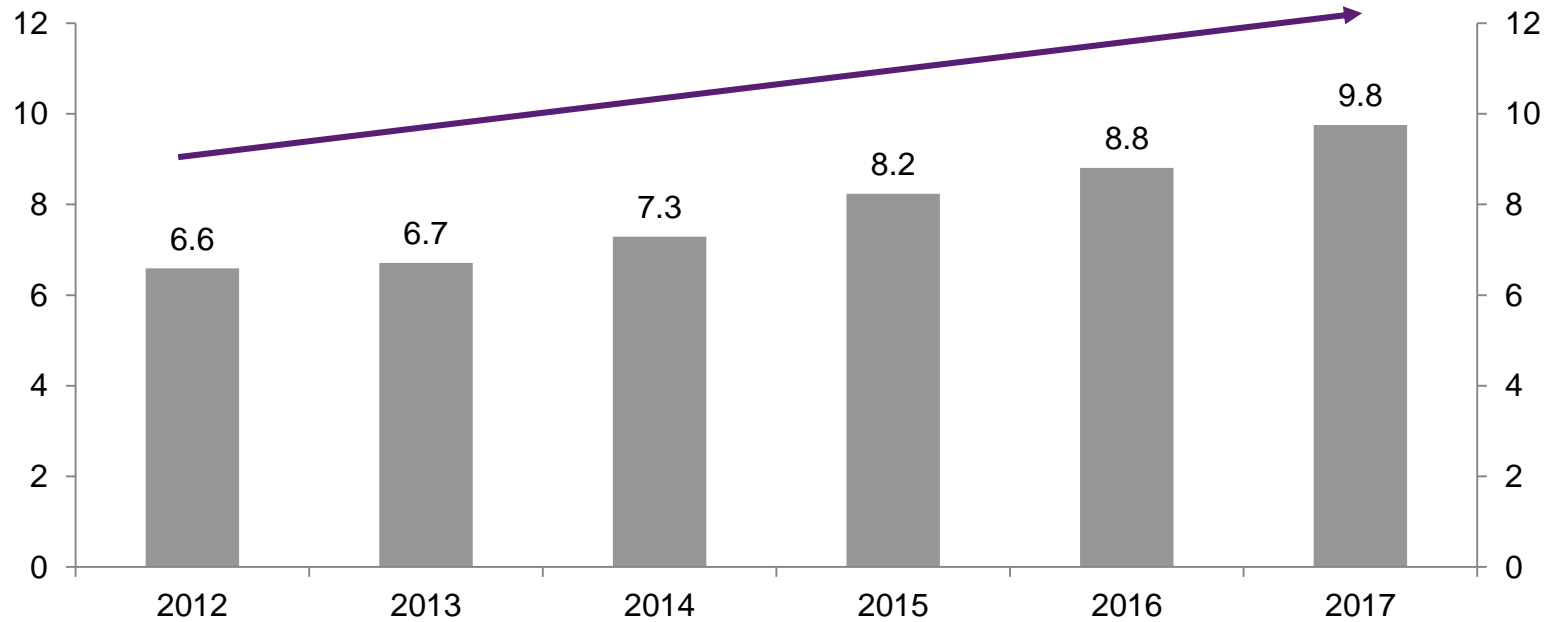
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## SECTORAL IMPACT ON CHINA



# Chinese corporates increasingly dependent on overseas revenues

Proportion of overseas revenue (%)

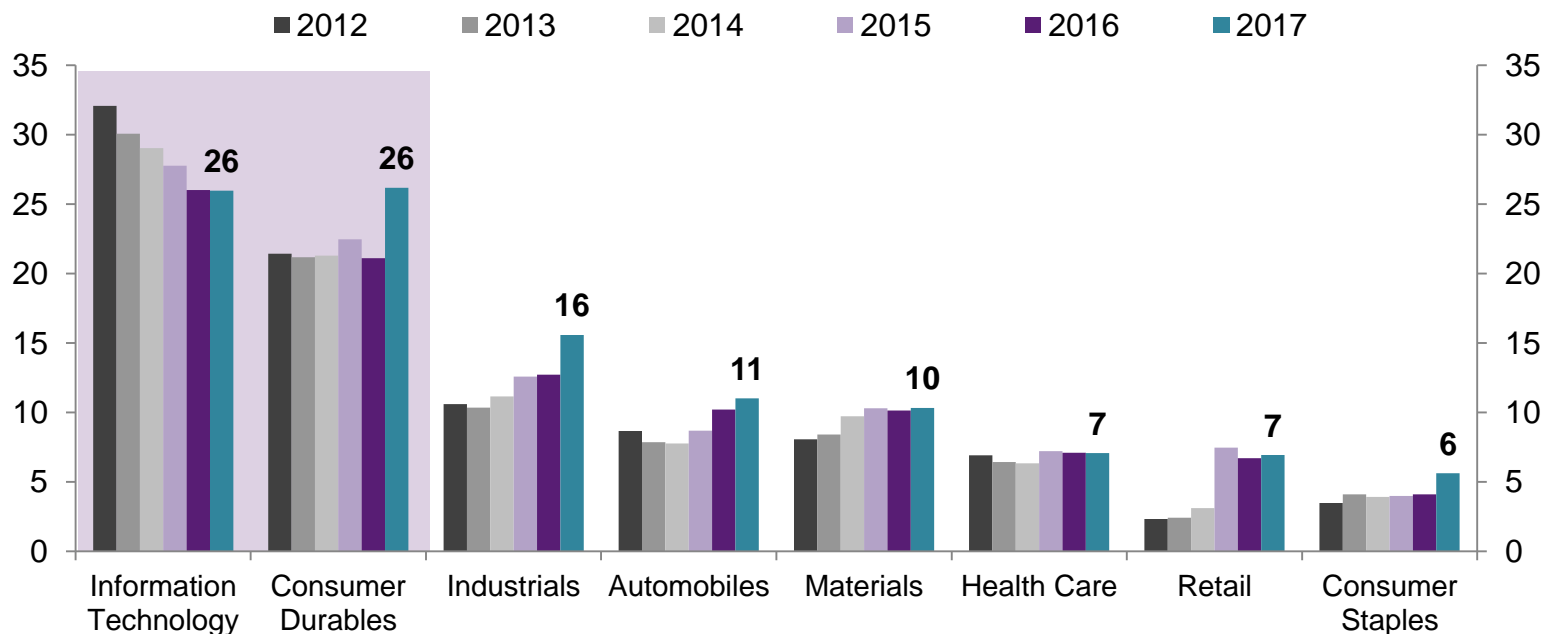


Source: Natixis, WIND N.B. Estimated from A shares



# ICT and consumer durables are the most exposed

Proportion of overseas revenue by sector (%)



Source: Natixis, WIND N.B. Estimated from A shares

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## SECTORAL IMPACT ON DEVELOPED ASIA



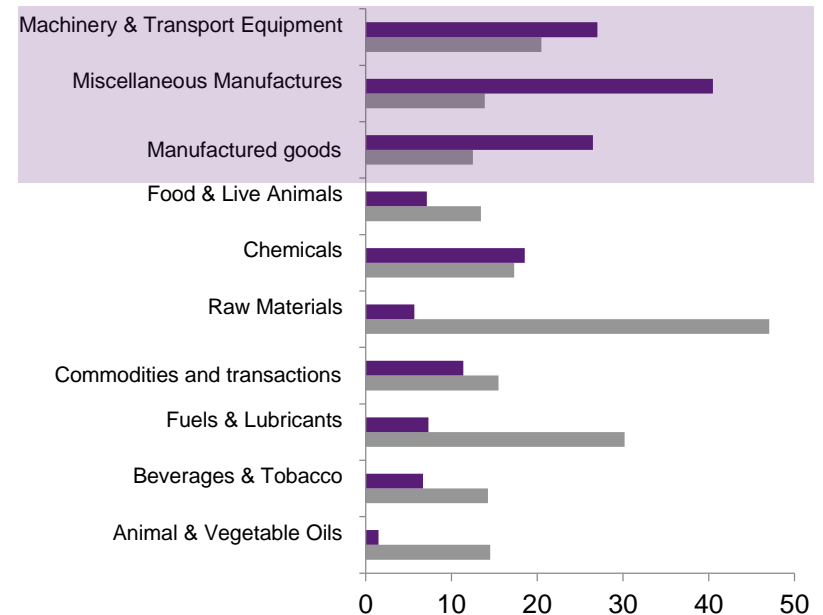
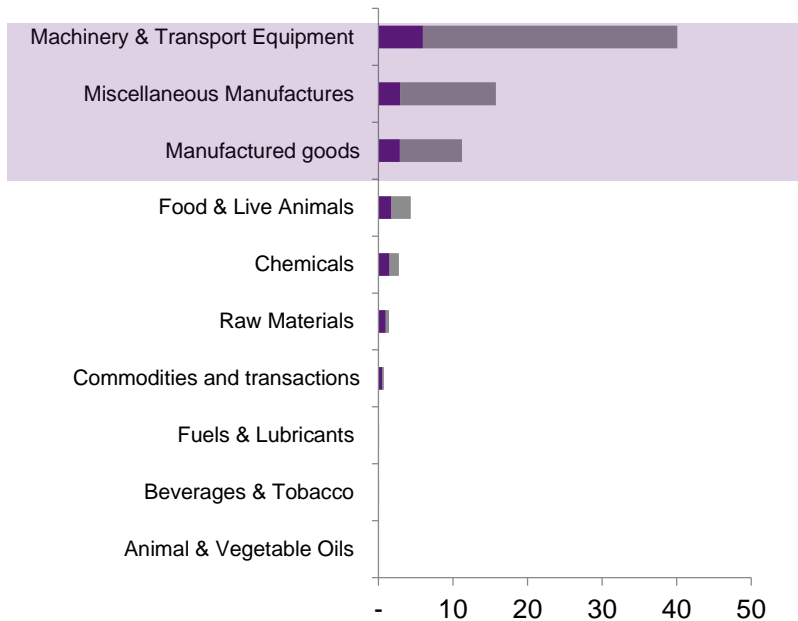
# Cross-fire of trade-war: Asia is right in the middle of it

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

Developed Asia dominates global market share in manufactured goods (% of total)

■ US goods affected by tariffs ■ Chinese goods affected by tariffs

■ Export ■ Import



Source: Natixis, UNCTAD  
N.B. Classification according to SITC1-Section

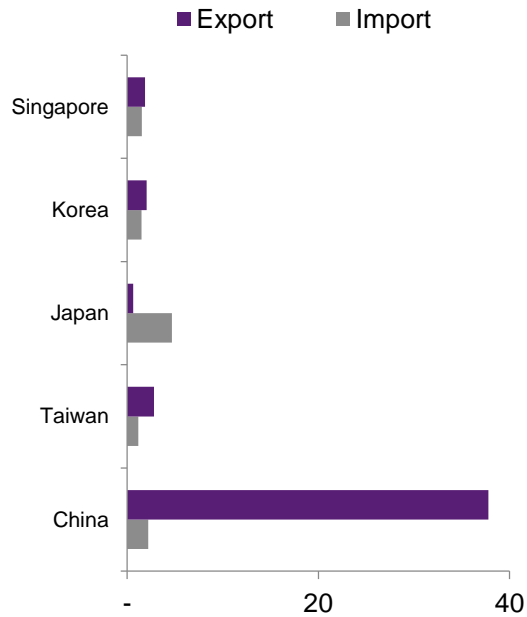
Source: Natixis, UNCTAD  
N.B. Classification according to SITC1-Section  
Developed Asia countries include Japan, Korea, Taiwan, Singapore, Mainland China

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

Source: United Nations Statistics Division.

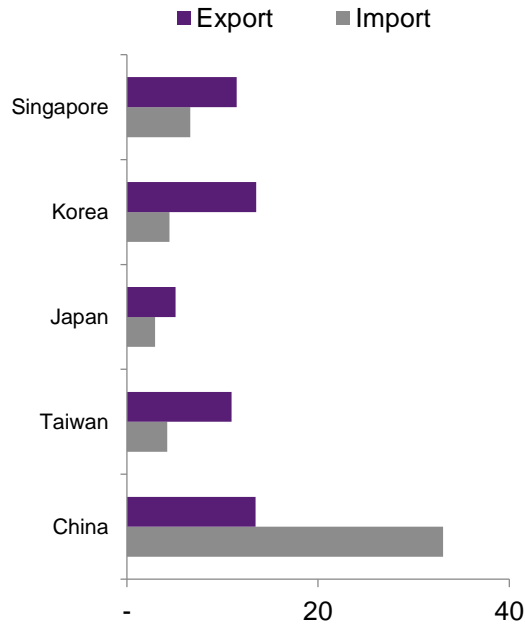
# Cross-fire of trade-war: Asia is right in the middle of it (high-tech exposure high)

**Telecommunication equipment (% of total)**



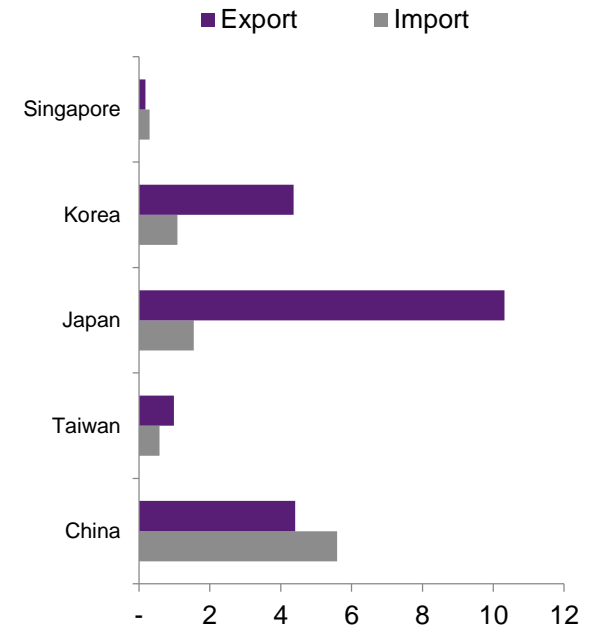
Source: Natixis, UNCTAD  
N.B.: Classification according to SITC3-Section

**Semiconductors (% of total)**



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

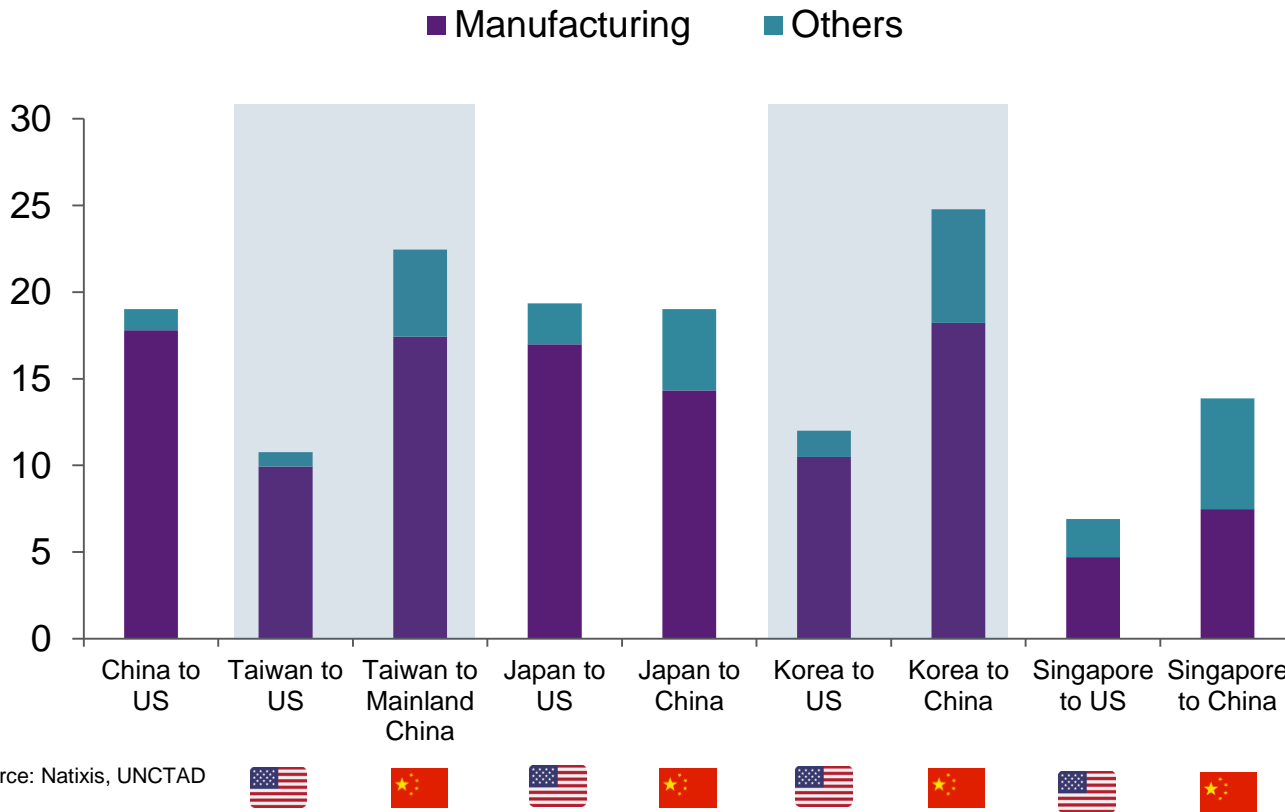
**Automobiles (% of total)**



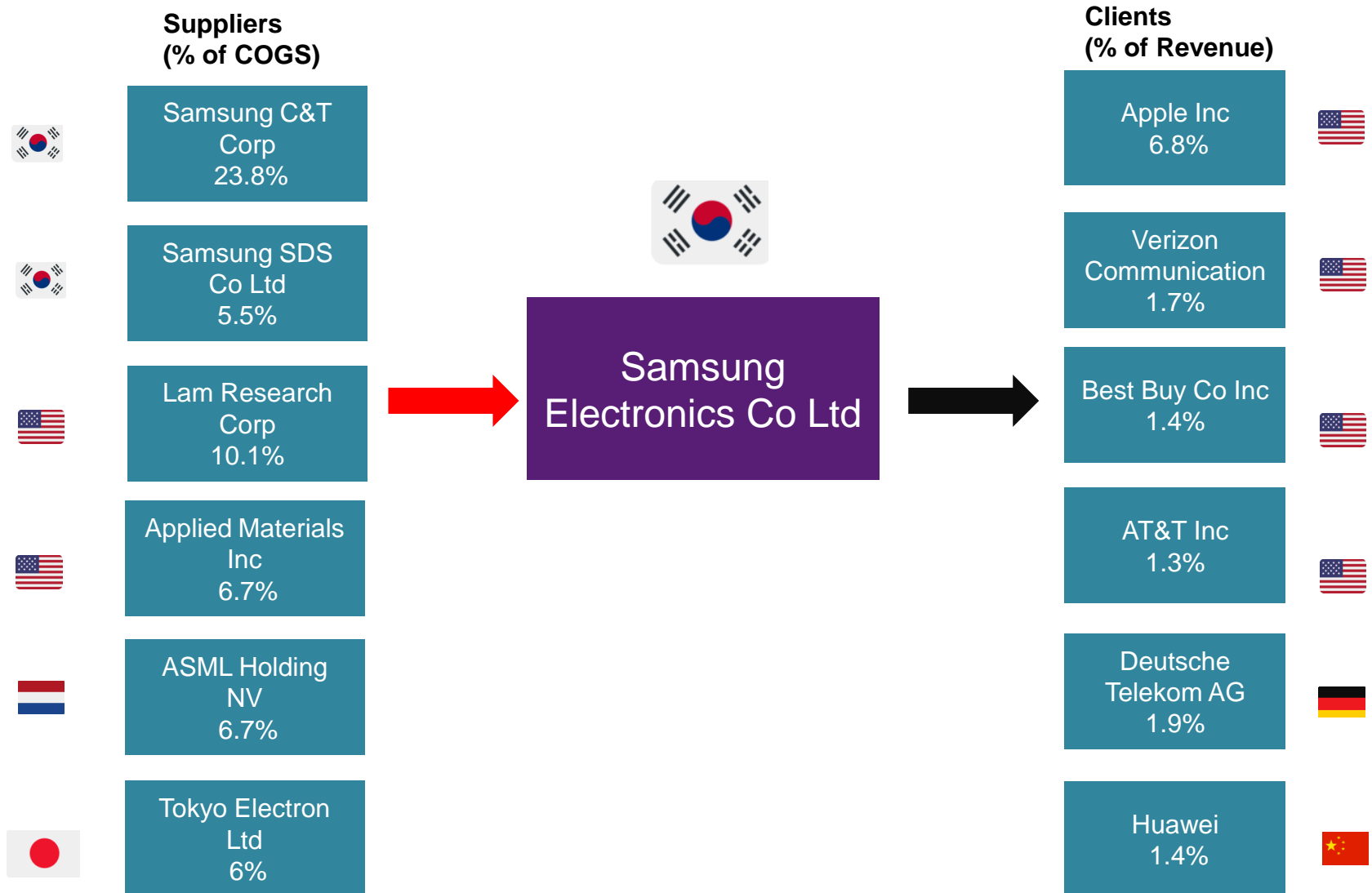
Source: Natixis, UNCTAD  
N.B.: Classification according to SITC3-Section

# Not only is dependence on manufacturing high, export exposure to the US and China also very high for manufacturing

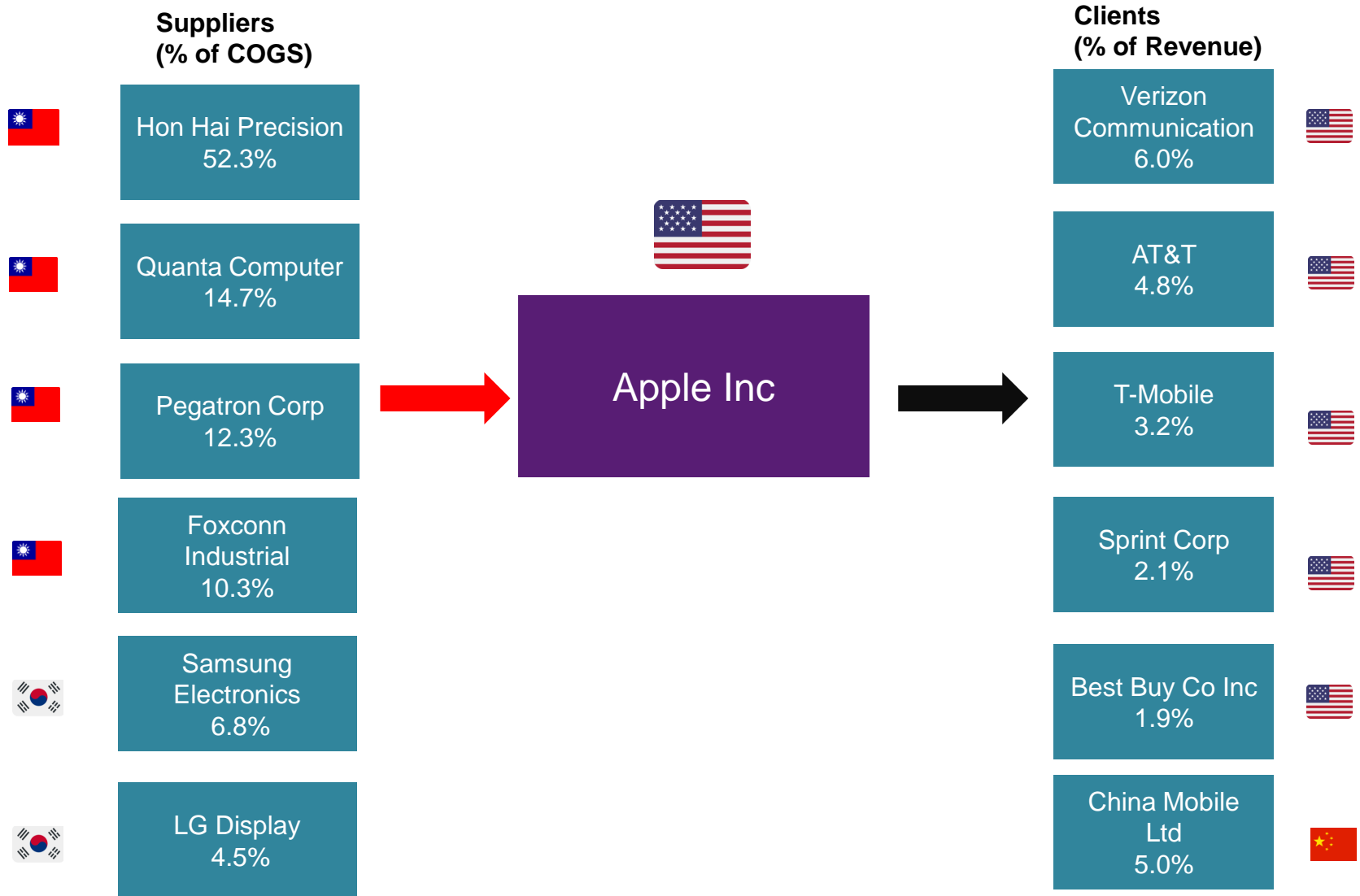
## Export to US & China by sector (% of total exports)



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



# China more prominent for Apple than for Samsung





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## POTENTIAL SECTORAL GAINS IN EUROPE

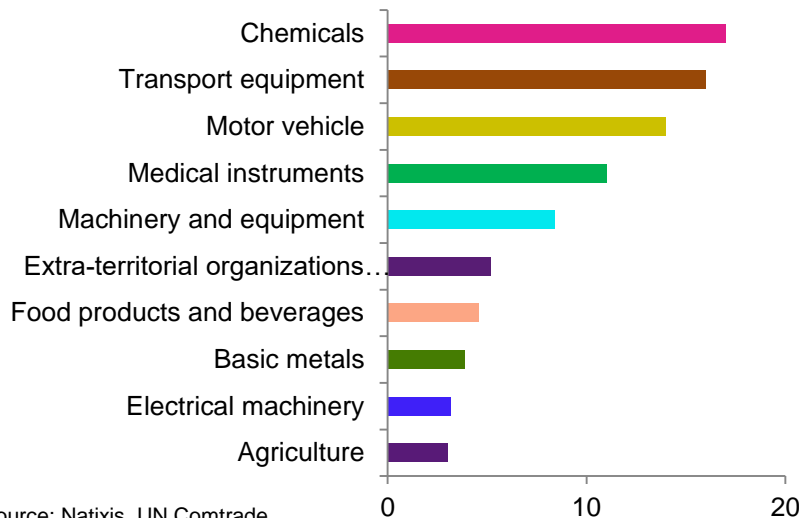




## EU companies are exporting more similar products as the US counterparts than the ones from China

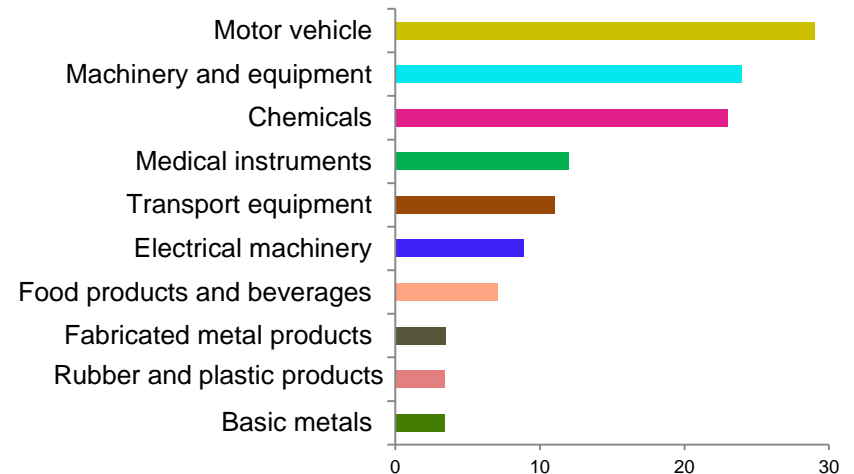
- Top 10 Chinese imports (at the ISIC 2-digit level) from the US and the EU are exactly the same: Transport equipment, Motor vehicles, Medical instruments, Machinery & equipment and Chemicals

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



Source: Natixis, UN Comtrade

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



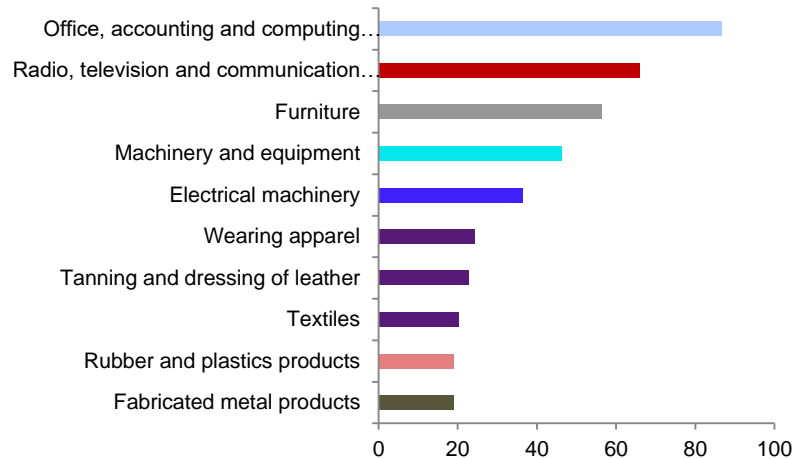
Source: Natixis, UN Comtrade

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

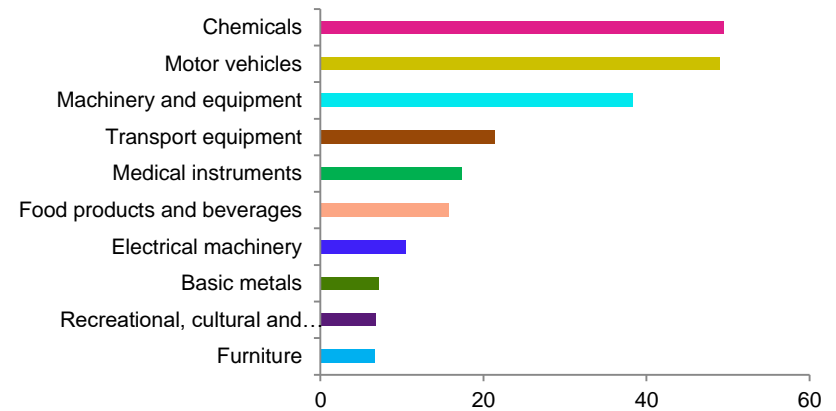
- If the US and China are crowding out each other's exports, the EU's exporting structure would suggest more chances in China's market.

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



Source: Natixis, UN Comtrade

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



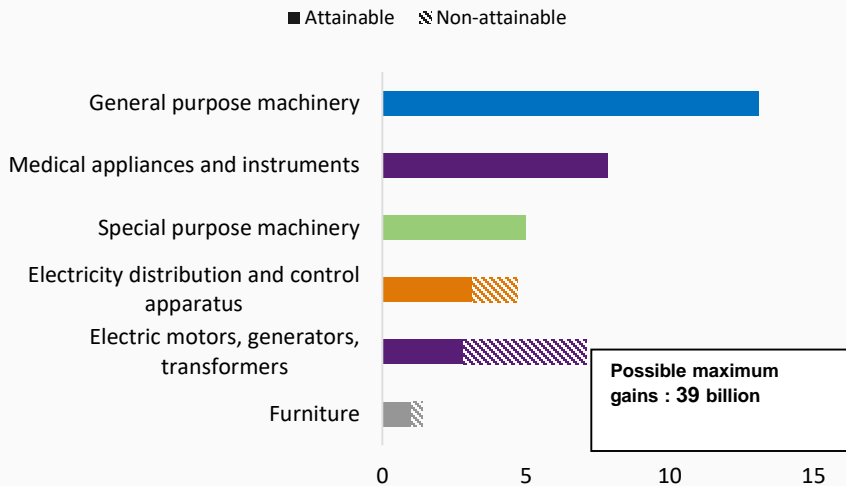
Source: Natixis, UN Comtrade

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

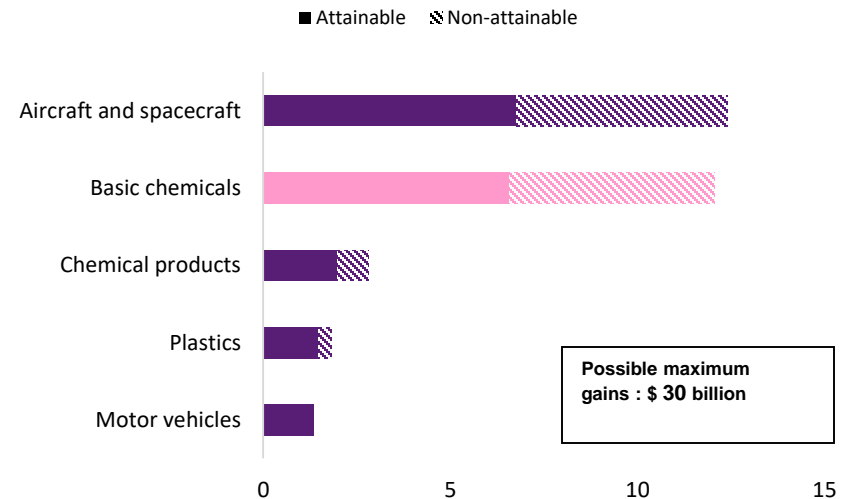
- For the first round of \$50 billion tariff, potential sector gains are higher in the U.S. market than in Chinese market.

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



Source: Natixis

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

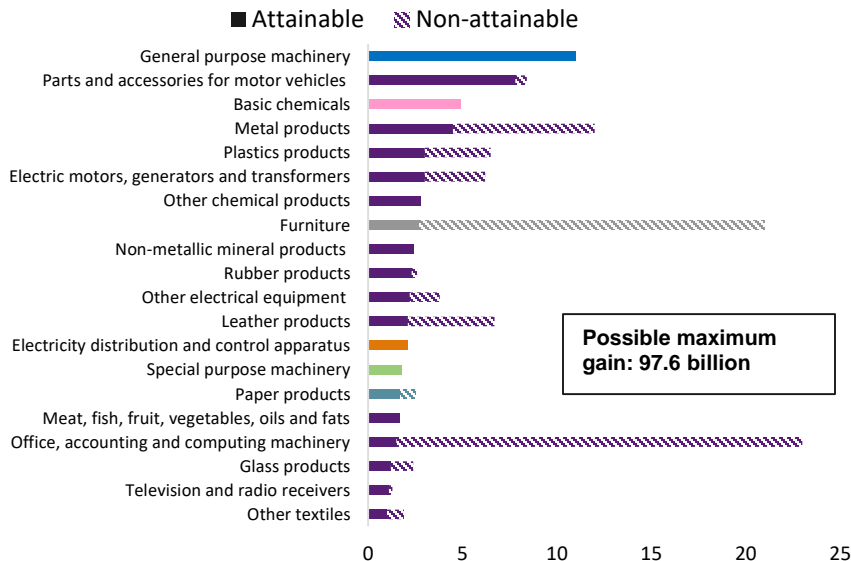


Source: Natixis

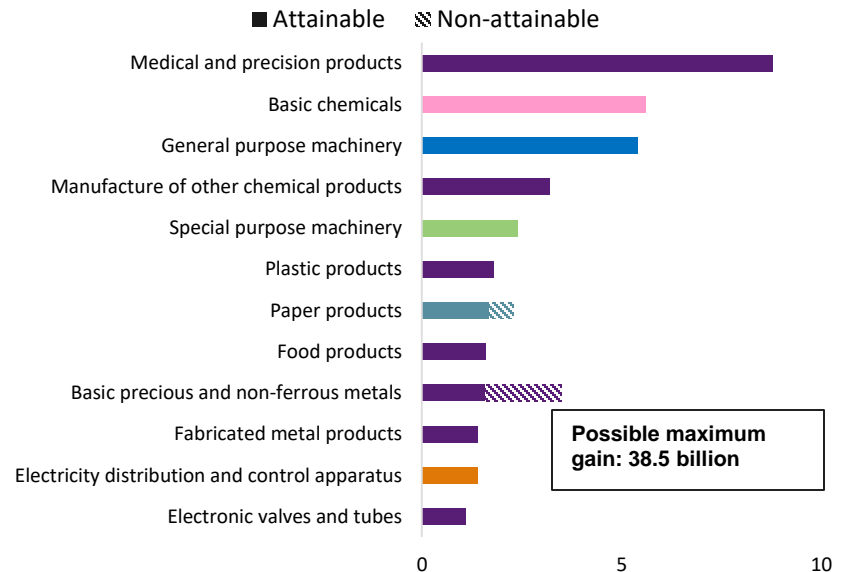
## For the \$200 bn additional US tariffs on China ( \$60 billion from China to US), potential gains for Europe could be even bigger (if no side is taken) but with capacity constrains

- 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

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



Europe's gain in China's market for the first 60 bn tariffs on the US (for sectors > \$1 bn)



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



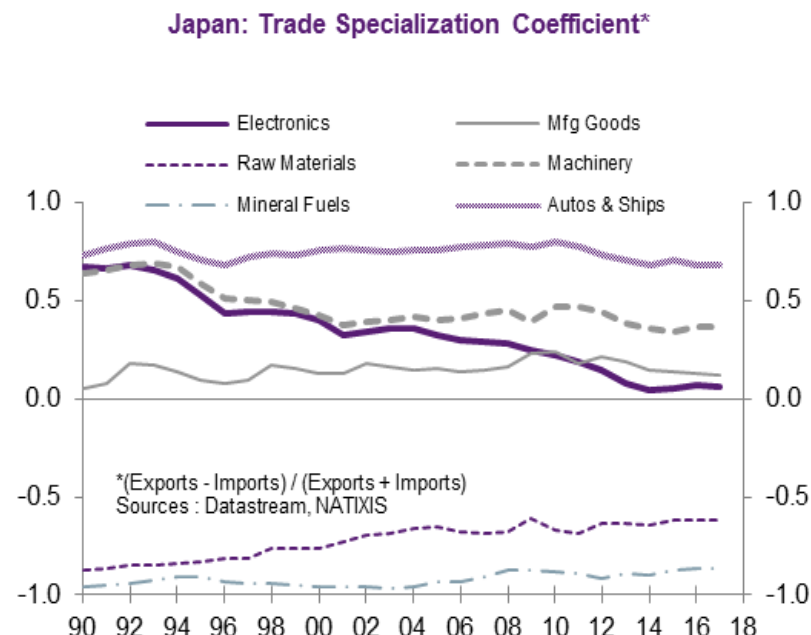
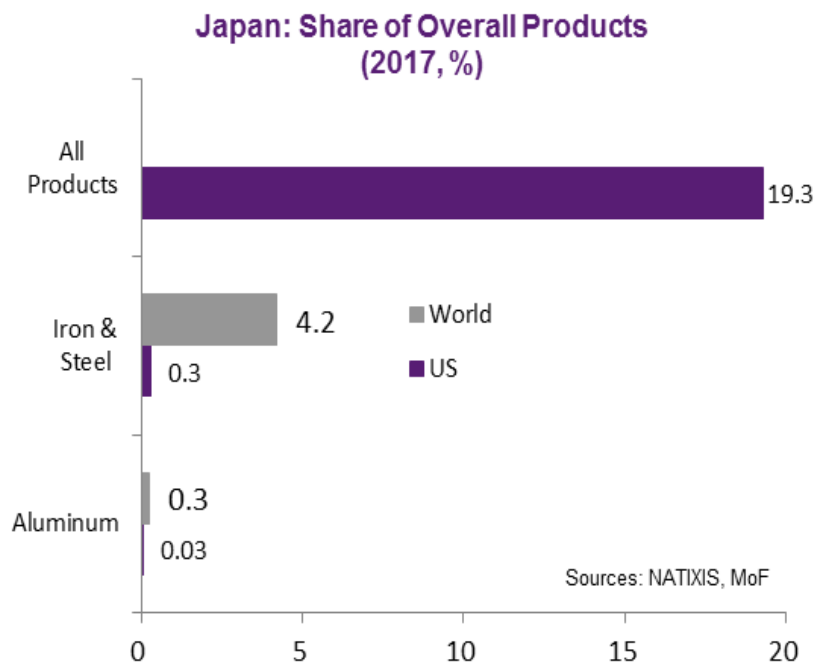
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## POTENTIAL SECTORAL GAINS IN JAPAN



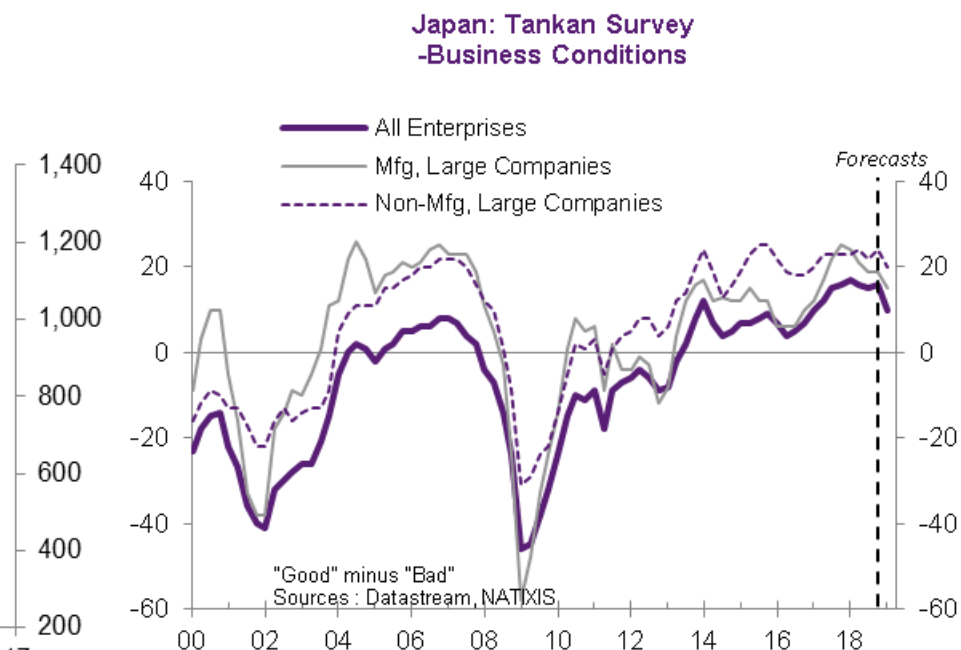
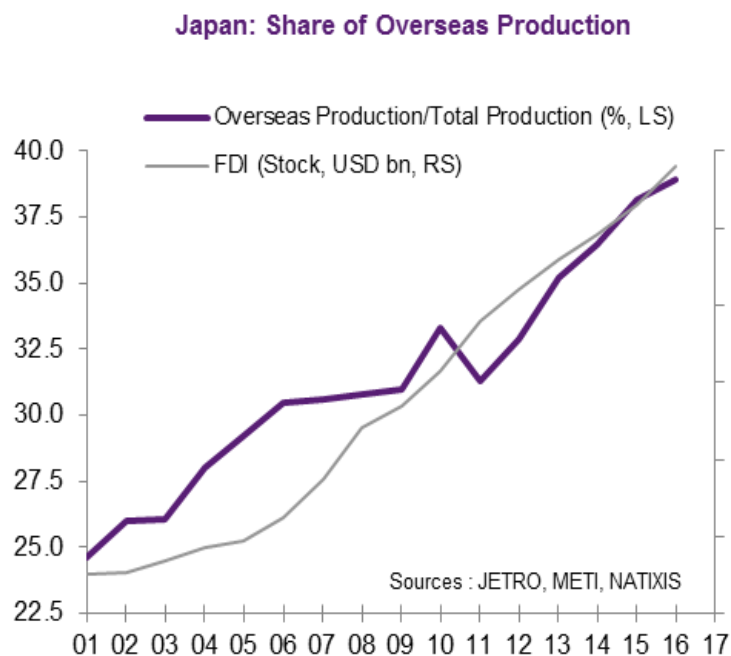
## Trade war: Limited direct effects

- 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.



## US-led trade war against China: in principle a bad news but..

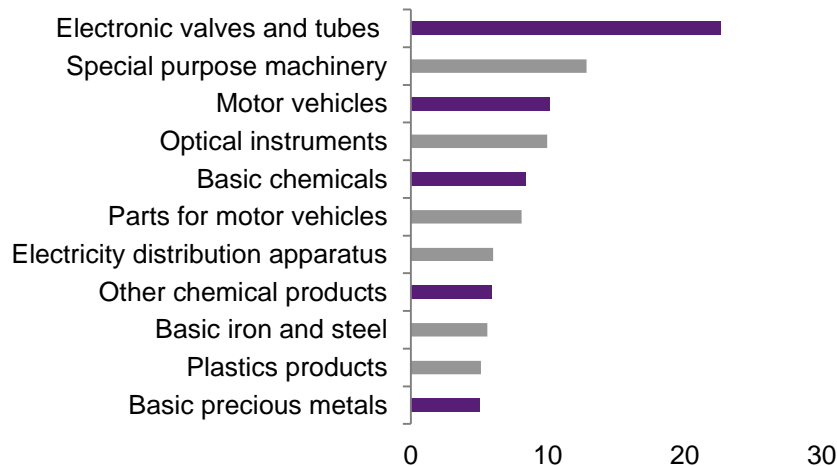
- As overseas production has expanded, higher global tariffs can have negative indirect effects on the Japanese economy through the supply chain network and on business sentiments.



## 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

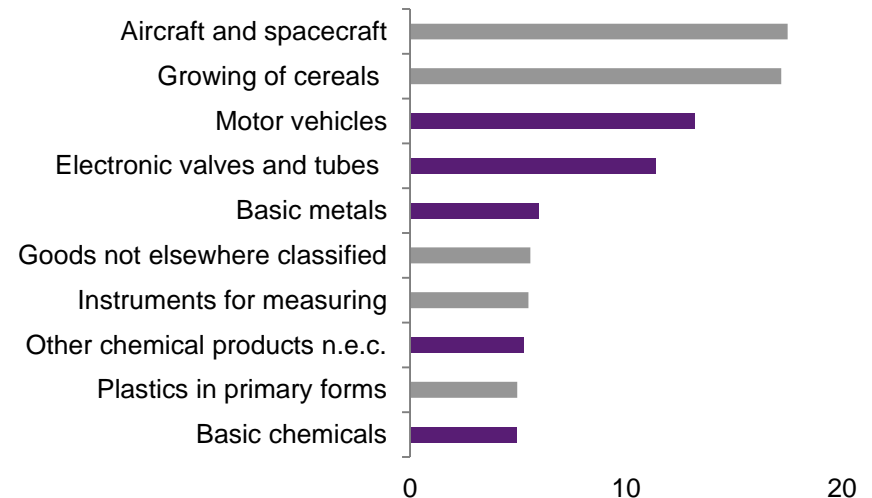
- Semiconductors, motor vehicles and chemicals are competing head to head in the Chinese market.

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



Source: Natixis, UN Comtrade

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

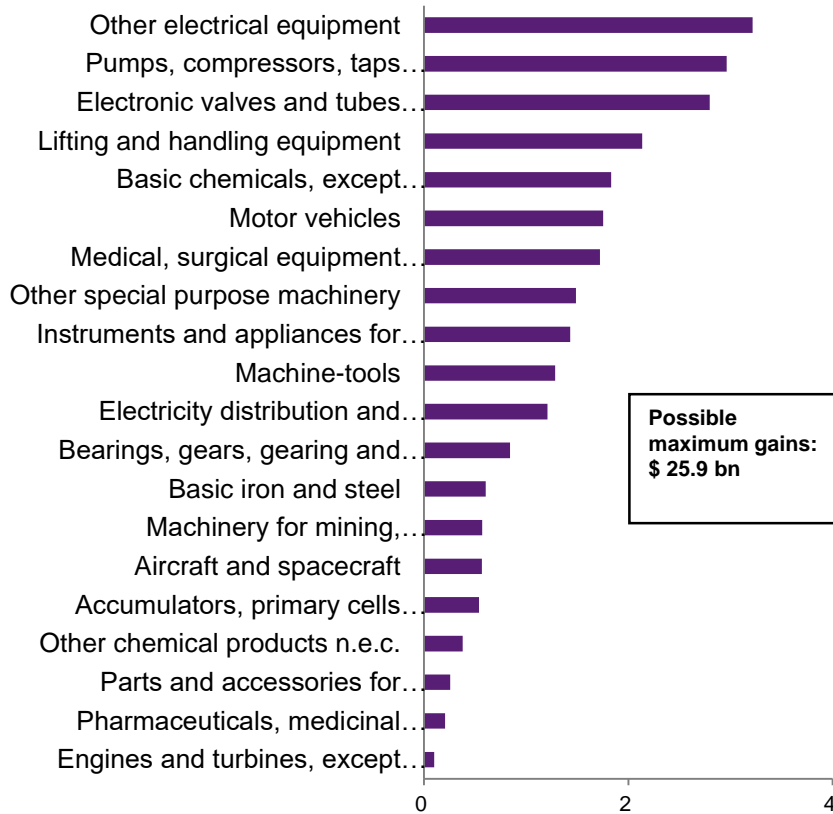


Source: Natixis, UN Comtrade

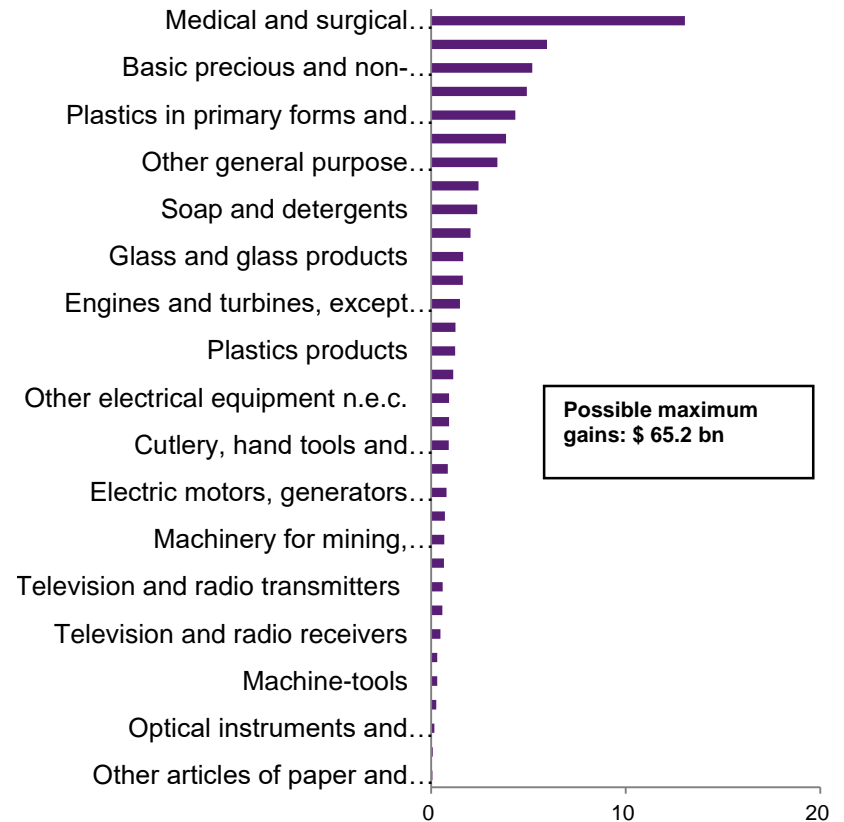


# The maximum gains bigger in China's market substituting US goods

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



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



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

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N.B.:Clasification according to ISIS-Rev3

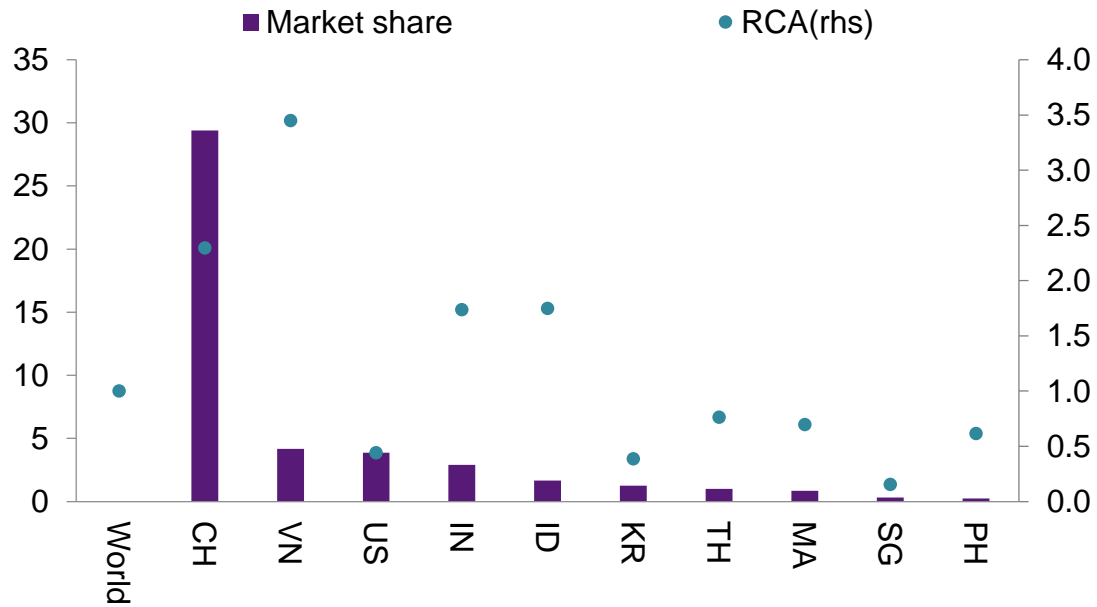
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## MEDIUM-TERM IMPACT ON EMERGING ASIA



# Impact of US-China trade war to have very limited benefits in the short-term

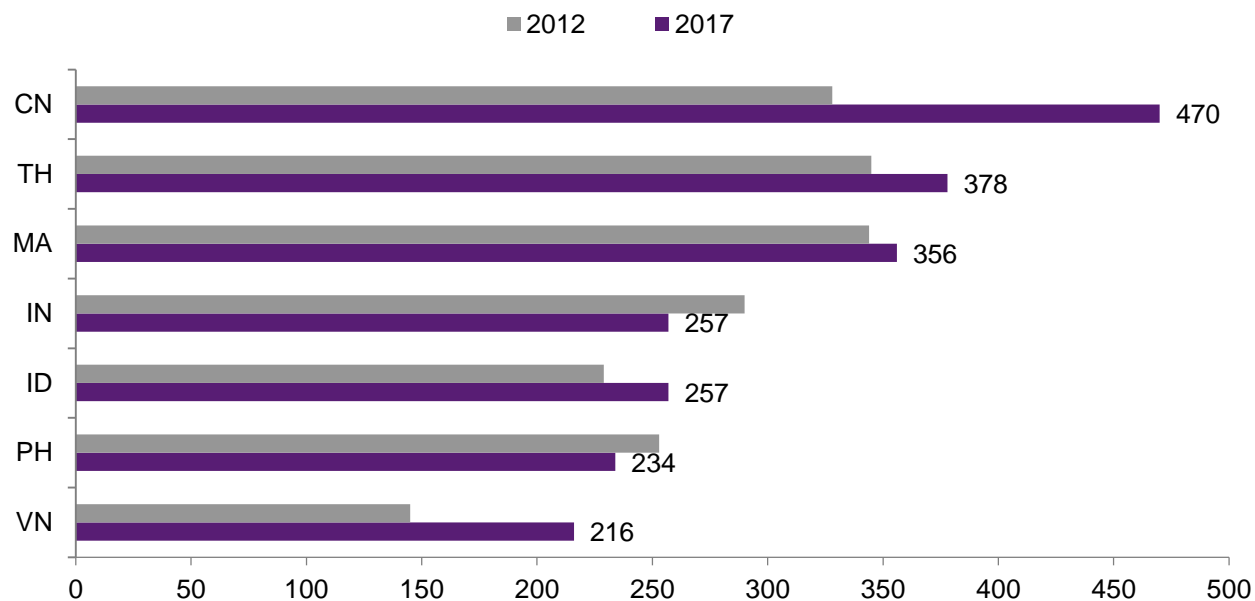
## China dominates labor-intensive manufacturing market share



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**

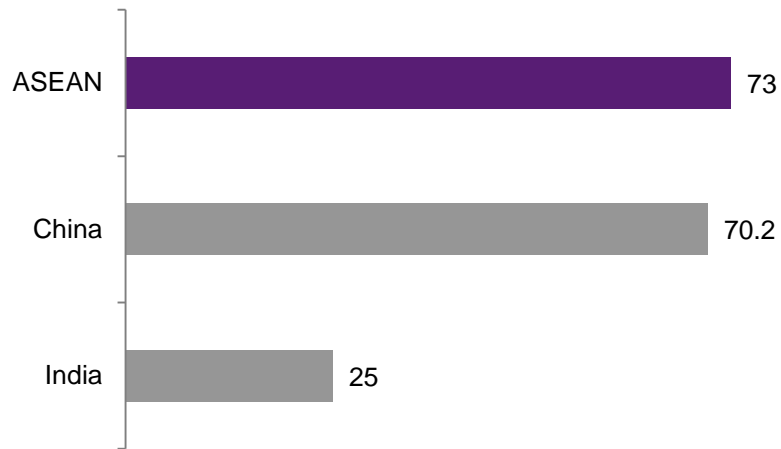
**Manufacturing Worker Monthly Wage (\$USD)**



Source: Natixis, JETRO

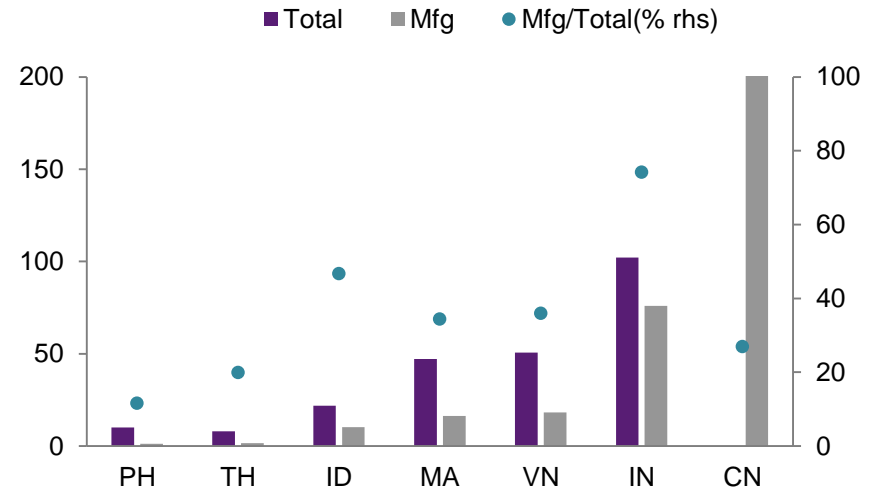
# Companies are already reacting to ASEAN long term competitiveness in manufacturing

Estimated FDI inflows 2018 H1 (bn USD)



Sources: Natixis, UNCTAD

Foreign Direct Investment (USD bn)



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

	Medium-tech capital-intensive	Labor-intensive
CN	3	7
ID	6	2
IN	5	3
ML	2	4
PH	7	6
TH	1	5
VN	4	1

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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