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ECONOMICS

Trade skirmishes – not a full-scale war

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Trump's Tariffs: The latest plan by the US to levy a 25% tariff on USD50-60 billion in imports from China – based on China's alleged infringements of US intellectual property rights – has raised concerns that an imminent trade war could potentially derail global growth momentum. Last week's action by the US followed a series of tariffs announced since the beginning of 2018 (Exhibit 1). Official lists of the products subject to the new tariffs will be announced in 15 days by the US Trade Representative.

Which sectors would likely be affected? Product sectors such as Information and Communication Technology **(ICT)** and machinery, as well as the 10 key strategic sectors identified in the 'Made in China 2025' plan, are likely to be on the list (Exhibit 2). The tariffs will impact at least 7.5% of China's exports with repercussions for other countries in those industries' supply chains.

China's response: So far, China's response to the US steel and aluminum tariffs has been to levy tariffs on USD3 billion in imports of 128 US products, including 25% tariffs on US pork and recycled aluminum goods, and 15% on wine, fruits, steel pipe, modified ethanol and ginseng. The response by Beijing has been measured and symbolic, for fear of escalating the situation further.

What's next for China? China has yet to counter the recent US tariff announcement. China has a range of options as it considers tariffs on some of the USD130 billion in US annual exports to China. Imposition of tariffs on US goods could be strategic – aimed at hurting Trump's supporters with tariffs on soybeans, or cancellation of a USD38 billion order with Boeing. That uncertainty led to a 5% drop in Boeing's share price last Friday.

Our Thoughts

We do not think the two countries wish to escalate the trade disputes further, and we expect to see an agreement by both sides in due course. The US administration followed through with new rounds of tariffs as signaled during Trump's election campaigns, with special attention paid to the trade deficit with China (Exhibit 3). As it turned out, exemptions from the tariffs on steel and aluminium were granted to many countries deemed to be partners of the US**.**

Exhibit 1: 2018 US Trade Actions

Date	2018 Trade Actions by US
23 Jan	Safeguard tariff on solar cells and modules imports up to 30% Safeguard tariff on washing machine imports up to 20%
8 Mar	Order for 25% tariff on steel imports signed Order for 10% tariff on aluminum imports signed
22 Mar	Plan to levy USD50-60 billion on imports from China announced Order for new investment restrictions on Chinese investment signed
23 Mar	Tariffs on Steel and Aluminum went into effect

Exhibit 2: China's Exports to US

Top 10 Products	US$bn	% of Total China's Exports	% of China's GDP
Telecommunication Equipment	83.7	4.0%	0.75%
Automatic Data Processing Machines	51.2	2.4%	0.46%
Toys, Games, Sporting Goods	27.5	1.3%	0.25%
Office, Data Processing Machine Parts	15.5	0.7%	0.14%
Electrical Machinery and Apparatus	14.6	0.7%	0.13%
Plastic Products	13.4	0.6%	0.12%
TV Receivers	11.7	0.6%	0.10%
Household Appliances	11.0	0.5%	0.10%
Apparel and Textiles	10.9	0.5%	0.10%
Motor Vehicle Parts	10.0	0.5%	0.09%
Total China's Exports to US	**526.2**	**25.1%**	**4.7%**

Source: CEIC, International Trade Centre (as of 2017)

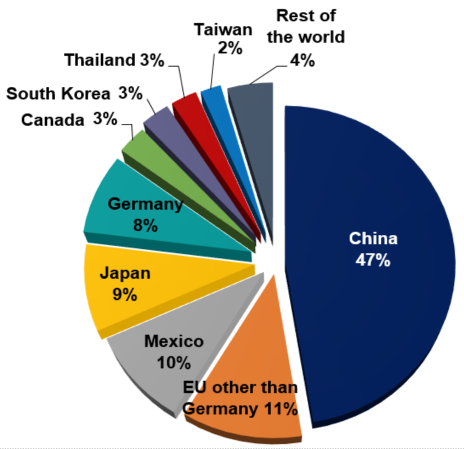
Burin Adulwattana
Senior Economic Strategist
burin.adu@bbl.co.th / +66 2 230 2657

Sirikorn Puangjit
Research Associate / sirikorn.pua@bbl.co.th

In our assessment, the economic impact of US trade actions is likely to be very small given the quantity of Chinese exports affected. Even the recent announcement of tariffs on USD50-60 billion in Chinese imports was in line with analysts' expectations. We think the actions are an opening gambit by the US to get the Chinese to negotiate rather than to provoke a full-scale trade war. However, we cannot completely rule out a scenario in which retaliations by both sides intensify, therefore it's worth monitoring the situation closely.

Thailand is unlikely to be singled out by the US as China has, as the US trade deficit with Thailand only accounts for 3% of the total deficit (Exhibit 3). Some Thai industries are likely to be hit by the indirect impact, especially those in China's supply chains. Sectors at risk include machinery and electrical machinery and equipment, as well as rubber and plastic, but they accounted for only 2.8% and 3.7% of total Thai exports to China in 2017, respectively. And Thai exports of products to China within industries that are subject to recent US tariffs on China's exports account for only 1.2% of Thailand's total exports last year (Exhibit 4). **As a result, the impact on Thai industries from the US tariffs is likely to be limited.**

Exhibit 3: 2017 US Trade Deficit by Countries



Source: U.S. Bureau of Economic Analysis

Exhibit 4: Products Subject to Recent US Tariffs on China's Exports that Thai Exports to China

Products	US$mn	% of Total Thai Exports	% of Thai GDP
Telecommunication Equipment	75.8	0.03%	0.02%
Automatic Data Processing Machines	1437.3	0.61%	0.32%
Office, Data Processing Machine Parts	592.7	0.25%	0.13%
Electrical Machinery and Apparatus	72.6	0.03%	0.02%
Motor Vehicle Parts	642.3	0.27%	0.14%
Total Thai Exports to China	**US$29.4bn**	**12.4%**	**6.4%**

Source: CEIC (as of 2017)

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50 – 00359		Pass
Below 50	No logo given	N/A

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SELL: Expected negative total returns of 15% or more over the next 12 months.

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