



# **Sino-US trade frictions and the impacts on Hong Kong**

中美貿易磨擦  
及对香港影响

**September 2018**

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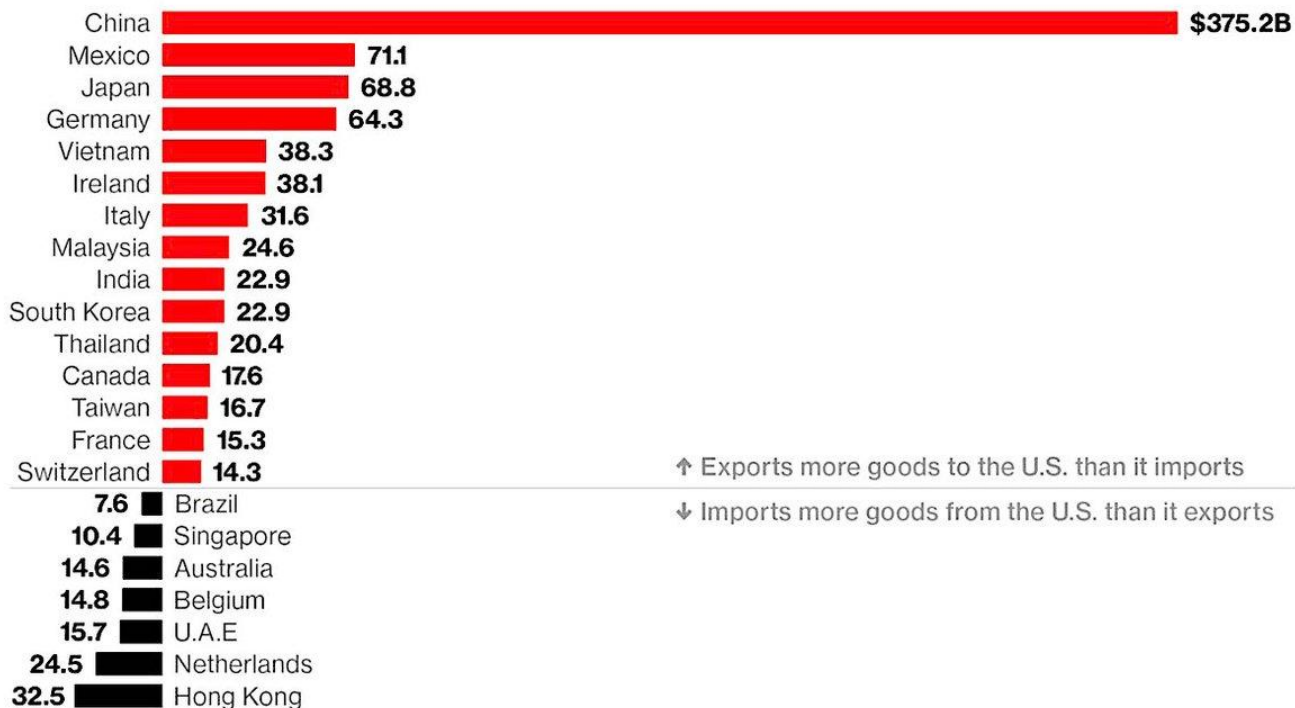
**Director of Research 研究总监**

# Fact: (事实)

## Trade as the source of conflicts (贸易是磨擦的源头)

### China is the US' largest source of trade deficit

(中国是美国最大的贸易逆差来源)



Source: United States Census Bureau

Bloomberg

# Friction: (磨擦)

## Section 201 global safeguard measures (201全球保障措施)

- **Effective date:** 7 February 2018 (施行日期: 2018年2月7日)
- **Affected products:** Large residential washers & solar panels/modules (受影响产品: 大型家用洗衣机, 太阳能板)
- **Measures:** (措施)
  - ② A tariff-rate quota of 1.2mn units for a period of three years (from 7 February 2018 to 7 February 2021), with respective in-quota safeguard tariffs of 20%, 18% and 16% and out-of-quota safeguard tariffs of 50%, 45% and 40%
  - ② Crystalline silicone photovoltaic (CSPV) cells and modules face respective safeguard tariffs of 30%, 25%, 20% and 15% for a period of four years ending on 6 February 2022
- **Backlash:** (反应)
  - ② China, South Korea, Singapore, Malaysia, Taiwan and the EU have requested consultations with the US under the WTO Agreement on Safeguards (on one or both of the safeguard actions) and at least three Canadian solar panel producers have filed a complaint in the US Court of International Trade
  - ② China intends to withdraw concession to the US in response to the 201 tariffs on solar panels/modules and washing machines... so are Japan and South Korea

# Section 232 national security measures (232国家安全措施)

- **Effective date:** 23 March 2018 (施行日期: 2018年3月23日)
- **Affected products:** Steel and Aluminum (受影响产品: 钢, 铝)
- **Measures:**(措施)
  - ▶ Additional tariffs of 25% on steel
  - ▶ Additional tariffs of 10% on aluminium imports
- Exemption granted to Australia, Argentina, Brazil (steel only) and South Korea (steel only).
- China's shipments to the US have dropped significantly (30% in metric tonnes in the case of steel between 2011 and 2017) in recent years due to numerous AD and CV duty orders – some 30 against steel products and 2 against aluminium products.
- In 2017, China was only the eleventh largest US supplier of steel products and fourth largest US supplier of aluminium products, accounting for 2.2% and 9.5% of the US's total imports of the respective products.

# Section 301 additional tariffs (301条款额外关税)

## Effective date: (施行日期)

- ▶ 6 July 2018 on US\$34 billion worth of Chinese exports; 23 August 2018 on another US\$16 billion; 24 September on another US\$200 billion; higher rates and more products may come later.

## Affected products: (受影响产品)

- ▶ about 1,100 China-originated products in July and August, another 6,000 tariff lines on the US\$200 billion list.
- ▶ Under the lists of 1,100: Chemicals; Medicines; Rubber tyres and conveyor belts; Iron / non-alloy steel; Alloy steel; Aluminum; Machinery and mechanical appliances (including machinery required for textiles and apparel manufacturing); Electrical machinery (including video and audio recorders / players); Railway / tramway; Motor vehicles; Planes and helicopters; Boats; Glass and microscopes; and Firearms
- ▶ Under the list of 6,000: products extend across 81 HS Chapters, including textiles, leather, headgear and furniture

## Measures: (措施)

- ▶ Additional tariffs of 25% for the first two lists, 10% for the third list that may rise to 25% by end-2018.

# China's countermeasures to Section 232 tariffs (中国对 232 关税的反制措施)

- **Effective Date:** 2 April 2018 (施行日期: 2018年4月2日)
- **Affected products:** (受影响产品)
  - ▶ 128 items including wine, pork, fruits and steel products
- **Measures:** (措施)
  - ▶ Additional tariffs of 15% on (a) nuts, including coconuts, cashews, almonds, hazelnuts, walnuts, chestnuts, pistachios, and macadamia nuts; (b) fresh or dried fruits, including plantains, bananas, dates, figs, pineapples, avocados, guavas, mangoes, oranges, mandarins, clementines, grapefruit, lemons, grapes, watermelons, papayas, apples, pears, cherries, peaches, plums, strawberries, raspberries, blackberries, cranberries, kiwi, durian, persimmons, lychee, longan, rambutan, dragon fruit, and apricots; (c) grape wine; (d) denatured ethyl alcohol, (e) ginseng roots, and (f) seamless tubes, pipes, and hollow profiles of iron or steel
  - ▶ Additional tariffs of 25% on (a) aluminum waste and scrap and (b) meat and edible meat offal of swine
- Also, China has filed a request for consultation under the WTO dispute settlement framework with the US regarding the Section 232 action

# China's countermeasures to proposed Section 301 tariffs (中国对 301 条款的反制措施)

## ● **Effective Date:** (施行日期)

- ▶ Same dates as the US for the first two lists; conditional upon the implementation of the third list

## ● **Affected products:** (受影响产品)

- ▶ 545 US products worth US\$34 billion, and another 333 products worth US\$16 billion for the first two lists.
- ▶ Including major crops such as soybeans, corn, cotton, sorghum, and wheat as well as other agricultural products such as beef, cranberries, orange juice, whiskey, and tobacco. Manufactured goods on the list include aircraft, passenger cars, sport utility vehicles, off-road vehicles, auto parts, chemical products, and plastics
- ▶ additional 5,207 US products worth US\$60 billion under the third list.

## ● **Measures:** (措施)

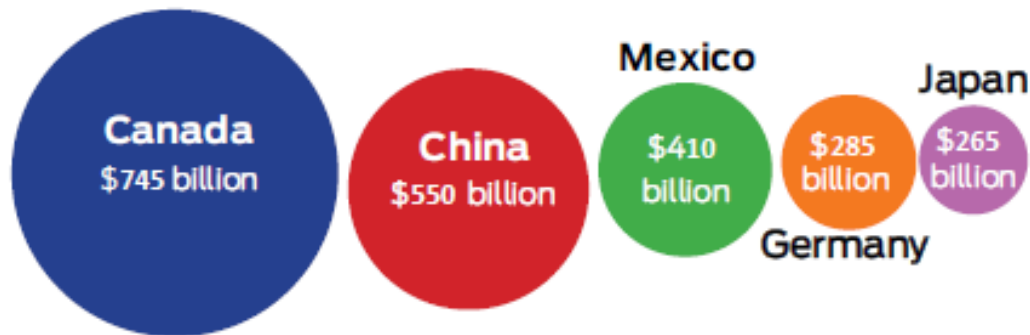
- ▶ Additional tariffs of 25% for the first two lists, 5-25% for the third.

# Fallacy: (谬误)

## China runs the largest trade surplus with the US

(中国是美国最大的贸易逆差来源)

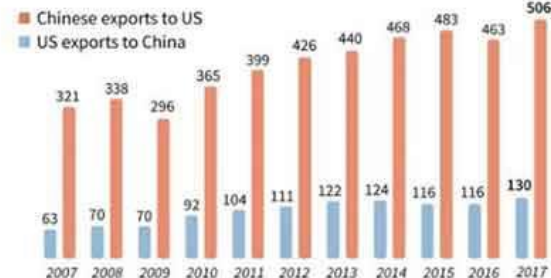
### Top foreign markets for US companies



### China-US economic ties

#### Trade in goods

In billions of dollars



China is our second-largest overseas market, worth more than \$550 billion—but it should be even more.

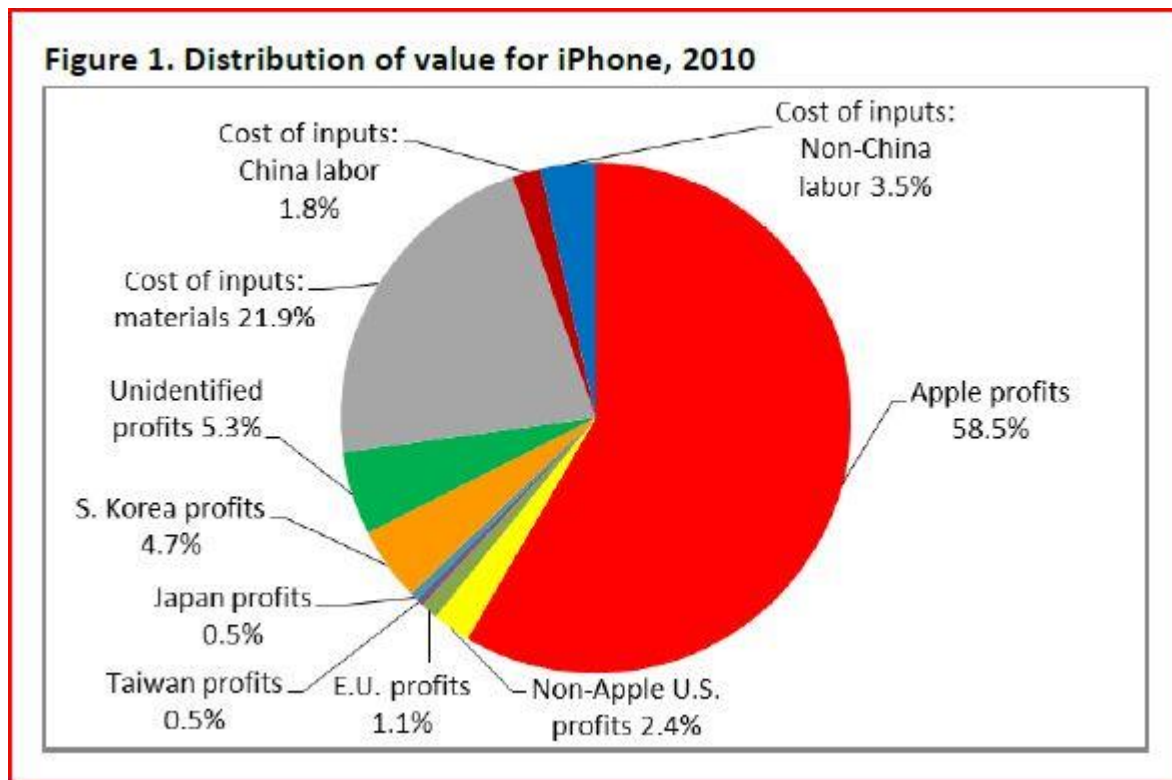
据美中贸易全国委员会研究,中国市场2017年吸纳了5,500亿美元美国公司在全球(包括美国和中国)生产的产品,比当年美国直接从中国进口的5,060亿美元更多,仅次于加拿大。





# China runs the largest trade surplus with the US (中国是美国最大的贸易逆差来源)

研究显示，每部从中国出口的苹果手机，中国的加工值只有2%。



# Trade is a zero-sum game (贸易是零和游戏)

## Zero-Sum Game



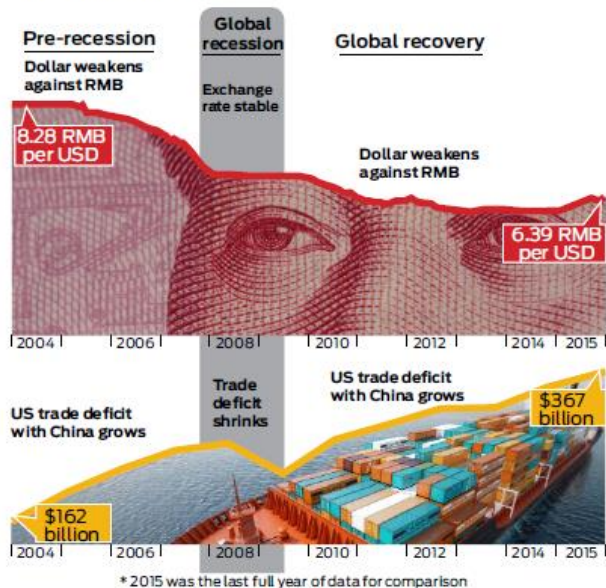
$$+1 - 1 = 0$$

# China 'manipulates its currency' and plays unfair

( 中国操控汇率, 进行不公平贸易 )

## Weak correlation

There is little evidence that China's exchange rate affects the US trade balance.



We often hear that China "manipulates its currency" and harms the US economy. Some say if we punish China as a manipulator or slap tariffs on Chinese goods it would reduce our trade deficit. But what does currency manipulation mean? More importantly, would tariffs on Chinese goods help our economy?



### Trade facts THE US TRADE DEFICIT WITH CHINA

According to polling by the Pew Research Center, more than half of Americans are concerned about the US trade deficit with China. A few facts offer important context — and suggest a course of action.

We have a large bilateral trade deficit with China and it is much bigger than it was 20 years ago, before China joined the WTO. But, everything related to the U.S. economy is bigger than it was 20 years ago. Our economy is more than twice as big now as it was then.

Much of what we import from China is stuff we imported for decades from other East Asian economies — Japan, South Korea, Taiwan, and Hong Kong. In 1996, our trade deficit with East Asia (including China) was two-thirds of our total trade deficit; it was about the same in 2015, although larger in total value.

As the size of the American economy doubled over the past 20 years, Americans have purchased more from producers everywhere. Our total trade deficit was about 2 percent of GDP in 1996; in 2015 it was about 4 percent — not large, by international or historical standards.

When you look at the data, the trade deficit with East Asia as a whole and the trade deficit with the rest of the world have each also about doubled during that time, but remain proportionately the same. What has changed is that China's portion of our deficit with East Asia has increased, while the share held by other East Asian economies has decreased.

Think of the TV in your living room. The label probably says "made in China" today. 20 years ago it probably said "made in Japan." The last time the United States was a major TV manufacturing was in the 1960s, so those TVs are not replacing U.S. production. Many imports from China share a similar story.

The U.S. has a trade deficit because we buy a lot of stuff that we don't make here, a trend that began long before China became a major manufacturer. In fact, one of the only things that reduces the U.S. trade deficit is a recession, like in 2009. Between 2000 and 2009, our trade deficit with China dropped by more than \$40 billion as Americans spent less. Americans resumed their binge buying as the economy recovered and in 2010, the overall trade deficit creaked back up. While recessions might reduce the trade deficit, they are not good for our economy or workers.

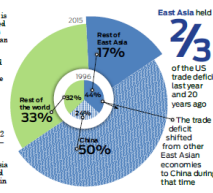
The growth of the trade deficit in times of a healthy economy is a sign that we have disposable income to spend.

We should take several steps to get the most out of our trade relationship with China. When China does, we should take internationally accepted, rules-based actions against them. Further, they build protectionist walls, we should boost American exports to China — the fastest growing market in the world — by pursuing policies that reduce the trade and market access barriers that China uses to keep out American manufactured goods, services, and agriculture products. We should take steps here at home to boost worker education and training, and improve competitiveness to ensure that American companies have a strong economy. And, it may be time to revisit policies to help workers adjust by changes to the U.S. economy find new jobs in more vibrant industries.

These actions are not as easy as pinning the finger at China, but are a lot more likely to make a difference.

Source: U.S. Department of Commerce, Pew Research, International Monetary Fund

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据美中贸易全国委员会研究,人民币汇率对美中贸易逆差影响不明显,过去十几年人民币对美元不断升值,但美中贸易逆差不断增加,主要是东亚其他国家把对美出口转移到中国。



# Trade wars are easy to win (for the US)

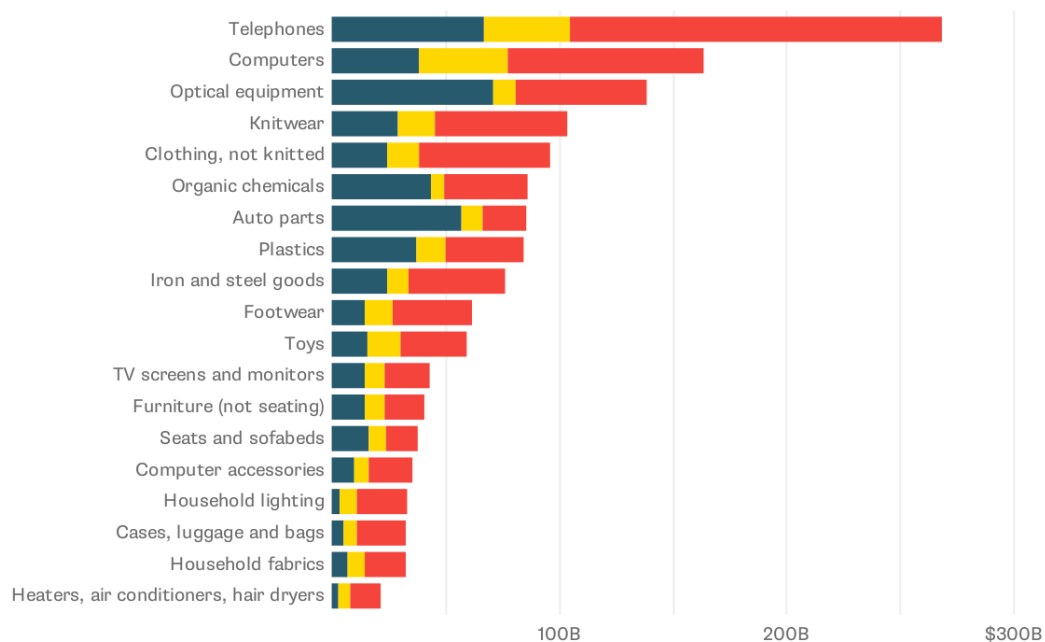
## ( 贸易战容易得胜 )

中国占美国消费品进口超过1/3, 美国占中国消费品出口不到1/5

### Trading Places

China accounts for more than a one-third share of U.S. imports of most consumer products

● U.S. imports, excluding from China ● U.S. imports from China ● China exports, excluding to U.S.



Note: 2016 figures. Shows trade categories in which U.S. imports from China were worth at least \$5 billion.

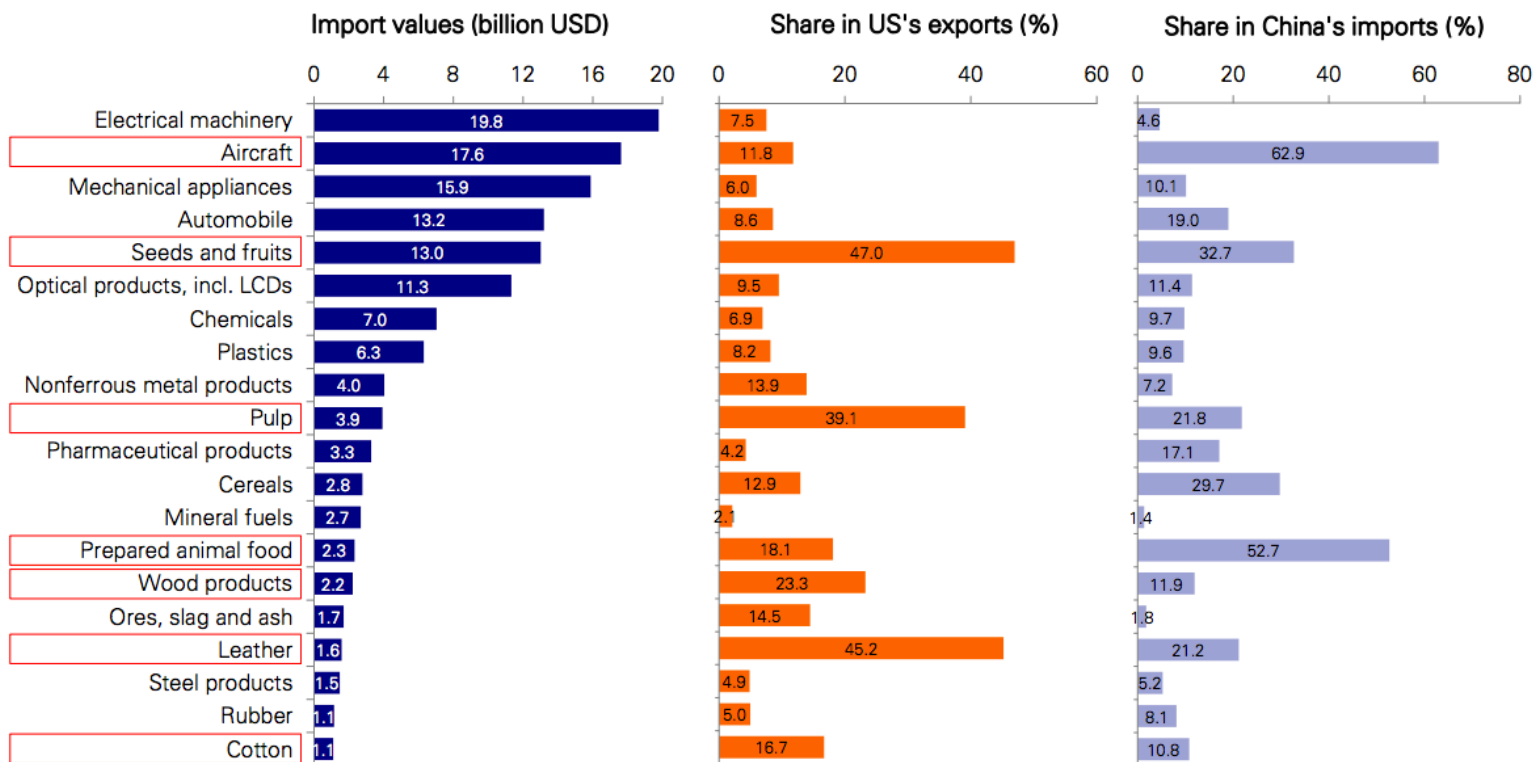
Source: International Trade Centre

BloombergGadfly

# Trade wars are easy to win (for the US)

## ( 贸易战容易得胜 )

Figure 1: China's imports from the US, by sector, 2015



Source: Deutsche Bank

Note: The figure lists top 20 sectors with largest imports by China from the US in 2015. Out of these industries, we identified 7 as China's potential retaliation targets, should the US initiate a trade war. Three criteria were applied in the selection: (a) significant market/sector impact in the US; (b) non-critical imports to China; or (c) critical imports to China but relatively easy to find substitute.

# The trade war against China only starts this year ( 对华贸易战只从今年开始 )

- China was by far the largest US supplier of large washing machines, with a 55% share of total US imports in 2015, but that share fell by 27% in 2016 and a further 80% in 2017, following the imposition of AD duties ranging from 38.43- 57.37%
  - ▶ By contrast, imports of large washing machines from Vietnam surged from zero in 2015 to US\$613mn in 2017, while second-ranked Thailand with a 27% share of the US import market in 2017 saw a 260% surge in shipments from a year earlier, and third-ranked South Korea with a 14% share posted growth of 111%
- China was also the largest US supplier of CSPV cells, with a 29% share of total US imports in 2015, but that share fell to 11% in 2017 as a result of the two AD duty orders and two CV duty orders currently in place
  - ▶ By contrast, the share of Malaysia rose from 21% in 2015 to 30% in 2016 and 31% in 2017. The largest US suppliers in this segment (Malaysia, South Korea, Vietnam, mainland China, Thailand, Mexico, Singapore and Canada) have all been hit with the safeguard measures and are expected to be negatively impacted
- These figures generally show that the AD/CV measures adopted by the US to block mainland China and other large suppliers have only resulted in a production shift to other foreign suppliers and not quite able to keep cheap imports out of the US to help the domestic industry. ( 过去美国通过反倾销和反补贴等传统贸易保护措施对中国出口做成不少障碍, 但只是改变了进口的来源地, 对美国本土制造业并没有帮助. )

**Fallout: (影响)**

**All losers in the short-term (短期双输)**



# Hong Kong: collateral damage manageable

( 香港:伤害可控)

- Overall, HK handles US\$45bn worth of re-export (RX) trade between China and US in 2017, about 9% of HK total exports (TX) and 4% of our total trade. Of which, US\$36bn is RX from China to US, while US\$9bn is RX from US to China ( 中美经港贸易占香港总出口 9 % )
- All measures including both US action and China's retaliation, if entered into force in full, represent about 56% of HK RX between China and US, or about 5% of HK TX in 2017 ( 当前中美磨擦的所有措施会影响香港总出口的 5 % )
- The immediate impacts on these trade restrictions appear manageable in overall terms, even assuming all affected trade were lost with additional tariffs
- However, the supply-chain multiplier effects, the uncertainty created and the threat of more to come could cause tremendous disruption to normal trade flows as well as volatile side-effects on financial and real sector activities ( 但通过供应链和金融市场等不确定因素的间接影响较难估计)



**Long-term: (长期)**

**China could have the last laugh (中国可占优)**

- China becomes the largest and most promising market, has 300mn middle-income earners, over 30% of the world's total (中国是全球最大和增长最快的市场)
  - ▶ Over the past decade, China is the highest growth market, even for US exports
  - ▶ GM sold around four million cars in China in 2017 and it has topped its car sales in the US, as it sells 39% of its units in China versus 30% in the US
- China acts as a defender of multilateral global trade order, against attacks by the US, the order's own architect (中国在维护全球多边贸易秩序的贡献和地位)
  - ▶ By imposing tariffs on some of the WTO members including China while selectively excluding some countries and regions from the target list, the US has seriously violated the principle of non-discrimination in multilateral trade
  - ▶ It has also severely breached the promise of tariff concession the US has made under the WTO, as well as rules and disciplines concerning safeguard measures



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