

# Asian Investment Monitor: No Trade War....nothing to see here?

The origins of President Trump's animosity towards China can be traced back to the campaign trail where he spent considerable time attacking China for providing subsidies to domestic firms. He went as far as to say that China's US trade strategy is "the greatest theft in the history of the world".<sup>1</sup> Once confirmed as President-Elect, Trump abandoned decades of precedence by accepting a congratulatory call from the Taiwanese President, an event which significantly angered Beijing. While there are significant issues between the Chinese and US government including North Korea, sovereignty over the South China Sea and cyber-security, **President Trump has picked his first battle over trade**. As US midterm elections are taking place this November and given the need to appeal to his voter base on election day, we believe President Trump has decided to turn his campaign rhetoric of "putting America first" into full action.

- January 2018, President Trump proposed his first significant trade policies of the year - tariffs on US imports of solar panels and a 20% tariff on the first 1.2 million washing machines followed by a 50% tariff above that. (*China exported USD425MM worth of washing machines to the US in 2016 and its suppliers will be hit hard by this tariff.*<sup>2</sup>)
- March 2018, the US imposed a 25% tariff on steel and a 10% tariff on aluminium imports.<sup>2</sup> While China only supplies 2% of the US's overall steel consumption, in retaliation, it threatened to reduce its imports of American soybeans. We believe this was designed to deliberately impact the US agricultural industry which is predominantly located in areas within typically Republican Party leaning states such as Iowa, Kansas, Texas and Nebraska which were all won by President Trump in the 2016 Presidential Election.
- Late March 2018, the US imposed a tariff of USD50.0 Billion on Chinese goods with President Trump proclaiming that this act would make the US "a much stronger, much richer nation."<sup>3</sup> This move had an instant impact on US capital markets with the Dow Jones Industrial Average falling 2.9% (in one day) in the anticipation over a possible full scale trade war.
- April 2018, China responded swiftly with tariffs on over 120 American products, the majority of which impacted the US Food & Beverage sector. In retaliation, the US Trade Representative's Office published a list of 1,300 goods which could be subject to tariffs<sup>5</sup>. China in turn responded with further tariffs on American goods including tobacco and orange juice for example.

It increasingly looks as if China and the United States are on the brink of a trade war with both prepared to do whatever it takes to protect their own national interests. **China's Ministry of Commerce has said it will take on the US "until the end at any cost"**. While this may start as a trade war, it has the potential to turn into a war of pride on the global stage. It is interesting to note also that this is not the first such dispute between the US and China - President George W Bush also imposed tariffs on steel imports in 2002, however that confrontation did not escalate much further.

*With rising market volatility and economic uncertainty in the US, President Trump may persist with his desired trade war, but at what cost? In our view, the biggest losers of this trade war will be the citizens of the two countries who will inevitably end up paying more for goods which are subject to tariffs. Is President Trump truly putting "America first" or is he engaging in an ego driven exercise, only using 'national interests' as a cover?* We believe that this is a mixture of protecting America's interests and an ego driven exercise, however it must be noted that President Trump has continually acted upon what he promised to do in the campaign trail and he is fulfilling yet another promise.

**We believe that the initial tariff based 'skirmish' will not escalate into a trade war as the Chinese and US governments require reciprocal cooperation on a number of fronts...**not least of which is with respect to North Korea. President Xi announced China's plan to become more open to foreign investment in the financial and automobile sector – we believe this also indicates that **there is no real appetite for a trade war in China**. The US will also need to be equally careful as the country's domestic consumption driven economic growth (68.8% of US GDP) could be severely affected by a significant increase in prices. Let's not forget... the US imports 22% of all goods it consumes... from China.

<sup>1</sup> Donald Trump Calls China's Trade Practice the 'Greatest Theft in the World' – ABC News

<sup>2</sup> President Trump Approves Relief for U.S. Washing Machine and Solar Cell Manufacturers – Office of the United States Trade Representative

<sup>3</sup> Trump hits China with tariffs, heightening concerns of global trade war – CNN

<sup>4</sup> Trade war escalates as China slaps tariffs on 128 American goods including meat and wine – The Telegraph

<sup>5</sup> US Trade Representative Publishes List of Chinese Products Subject to Retaliatory Tariffs – McDermott Will & Emery