《Market Flash》

US-China: Trump Returns China's "Tat" With Tariff Slap On Extra US$200bn Of Chinese Goods

Following China's tit-for-tat response to US trade tariffs of 25% on US$34bn worth of Chinese imports which took effect last Friday (6 July), US President Trump returned the serve by instructing the U.S. Trade Representative to release a new round of 10% tariffs on new list of Chinese goods valued at US$200 bn. In its statement, the US Trade Rep Office said "In light of China's decision [on 6 Jul] to respond to the investigation by imposing duties on U.S. goods, the Trade Representative proposes a modification of the action taken in this investigation. The proposed modification is to maintain the original $34 billion action and the proposed $16 billion action, and to take further action in the form of an additional 10 percent ad valorem duty on products of China with an annual trade value of approximately $200 billion."

The new tariffs are not immediate as the public consultation process is set to take place until 30 August (2018). If the latest tariff proposal does take effect, then Trump's administration will have implemented tariffs on nearly half of US' imports from China. But the threats do not end there as President Trump had recently threatened to ultimately impose tariffs on Chinese goods, up to US$500bn (i.e. nearly the total amount of US' imports from China).

So far, the response from Chinese government has been measured/muted with PBOC officials saying China may consider countermeasures while an official from Ministry of Commerce said that the US is escalating trade tensions.

The key uncertainty now is how China will respond to Trump's latest "tit". The Chinese has significantly less room to match US' actions like-for-like as China's total imports from the U.S. were less than the additional amount of $200b goods that is targeted for the 10% tariff. In 2017, China's total imports from the US were only US$130bn. And while we await an official response from China's Ministry of Commerce, we believe that the Chinese may respond by imposing higher tariff rates on U.S. products in order to match the proposed 10% tariffs on $200b of Chinese imports Another possibility is that China may also curtail U.S. service exports to China (worth more than US$50b per year), in terms of tourism, education and banking services which US enjoys a surplus against China (US' imports of China services came to US$17.4bn in 2017, based on data from US Bureau of Economic Analysis).

Risk of trade tensions escalating into a "trade war" has definitely increased with the latest US' actions which came quickly after the first round of tariffs just went into effect last Friday

(6 Jul), indicating that Trump has not budged on his tough stance on China and his aim at Beijing's 'Made in China 2025' plan. While there still remains hope for some resolution instead of further spiraling trade measures, the outlook has become more uncertain. We maintain our view that the full impact of the trade actions will likely be felt only in 2019 and will remain watchful of the trade numbers in the coming months to assess the potential impact on 2018 growth.

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