Introduction

In a trade war, there aren't any winners, only losers. The question is who will lose the least? Who will yield first? It's not easy to identify which party will come out on top. This essay seeks to provide an in-depth and comprehensive report on both sides of the US-China Trade War. We will cover Washington's motives in waging the war - what their demands are and what they aim to achieve - and what their economy stands to lose as a consequence of the heavy tariffs imposed on Chinese imports. Similarly, this report will outline what China stands to lose from the trade war against its largest trade partner and the countermeasures Chinese authorities have undertaken to mitigate its effects. Relations and links will also be made with other economies, primarily Malaysia.

What the US wants, out of the Trade War

The United States economy is a world-leading, highly developed mixed economy which is renowned for the ideas and innovation which they produce. The United States is also considered to be a superpower in technological research and development, home to tech giants such as Alphabet Inc., Amazon and Microsoft. A sudden loss of this edge, be it through stolen intellectual property would have considerable implications for the competitiveness of American products.

In his speeches, President Trump stated that he intends to reduce the American trade deficit by imposing tariffs on Chinese imports in a bid to discourage US firms and households from importing more than it exports in monetary value.

For years the manufacturing industry in the 'Rust Belt' has seen a decline in employment due to shrinking steel and coal industries, increasing automation, and the transfer of manufacturing jobs overseas, mainly to China. The heavy tariffs imposed could perhaps encourage firms to locally source and manufacture products, thereby creating more employment opportunities for Americans, reviving the manufacturing industry, and decreasing foreign dependence.

The trade war can be seen also as an objection to the trade practices undertaken by China which are generally deemed as unfair. In order to invest in China, foreign firms are compelled to fork over IP details and licenses. A forced tech transfer. Moreover, foreign companies have had their intellectual property stolen, though companies have reported a decline in these types of attacks after Xi and then-President Obama agreed to crack down on cyber espionage in late 2015.

The Heavy Price the US has to bear

Let's first take a look at how the tariffs imposed by the Washington are, ironically, hurting their own economy. All tariffs imposed on Chinese imports are paid for by American firms, not by China. Often, these firms pass on the higher costs onto the consumers, who are the real victims of the tariffs. As a result, the general price of Chinese-related goods and services will increase, causing a rising cost of living. If this perpetuates, this may even lower the living standards of American citizens. Walmart, fortunately, reports that it has been able to absorb tariff costs so far, but warned of passing price increases to the consumer at hearings in Washington over the summer. Businesses will suffer too. The increased price of imported components and raw materials will raise production costs, producing pricier products, further reducing the competitiveness of American goods.

And now onto China. In retaliation to the tariffs, valued to be around $550 billion at the time of this writing, China has unveiled tariffs of their own which are accompanied by the cutting off of certain US imports. By September 2019, the total Chinese tariffs on US goods have hit $185 billion. The counterattack has seized up several major industries in the US, namely the U.S. automotive, tech, and agricultural industry. For example, soybean producers in the US have experienced a jarring shock when China slapped a 25% tariff on all soybean imports from American producers, causing a catastrophic plummet in sales and revenue. But that's the least of their problems. In order to circumvent the tariffs for the benefit of Chinese private companies, China has been importing soybeans from Brazil. In December 2018, China imported a record 2.4 million tons of Brazilian soybeans. Brazil's soy exports rose 22.5% last year, though that does not look like enough to have made up for the reduction in U.S. purchases. In the event where Chinese buyers utterly desert US clients in favor of Brazil, the US's soybean industry would be finished, even after the conclusion of the trade war, having lost its largest consumer. A similar story can be told about the other industries.

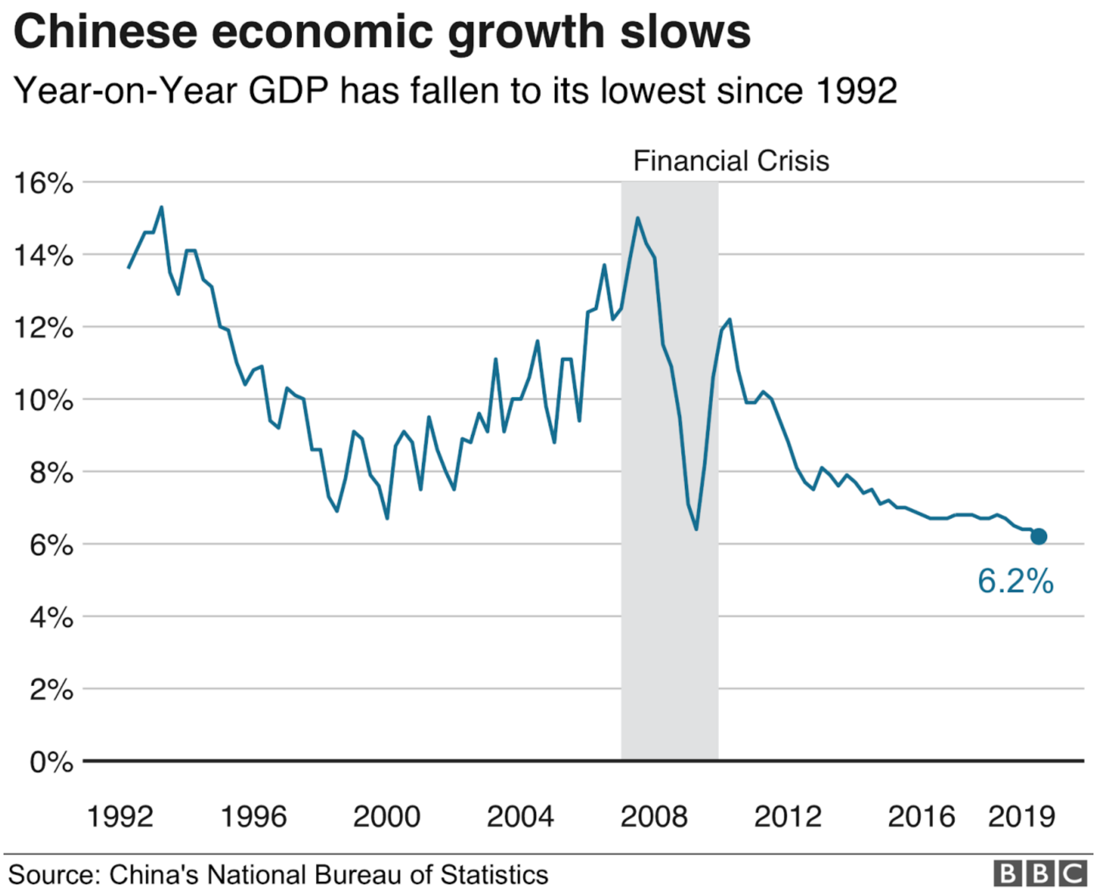
August figures have shown an unmistakable slowdown in job growth. The Labor Department has reported the addition of 130,000 new jobs in the economy, below analysts' estimates of 150,000.

The Stakes of the Chinese Economy

In the face of trade tensions between its largest trade partner - the United States - China does stand to lose in the midst of the Trade War. This is worsened by the slowing Chinese economy, which threatens to disrupt the demand and supply of internal goods and services. China's August imports have fallen this year as shipments to the US abruptly slowed, pointing to economic weakness and a call for more stimulus as the dispute worsens. Exports to the EU, ASEAN, Australia, and South Korea have also worsened. Imports fell 5.6% in August for the fourth consecutive monthly shrink.

The tariffs exacted on US exports have increased their cost, and Chinese firms have to pay higher prices which may be passed on to consumers. It is quite similar to the American side of the tariffs, albeit to a much smaller degree. The pork industry, which previously relied on US-imported soybeans to feed its livestock, has felt the shockwave of the trade tensions. To ensure the safety of agriculture businesses and food companies and to prevent a countrywide famine from shaking the political, financial leadership that secures China's position in the global community.

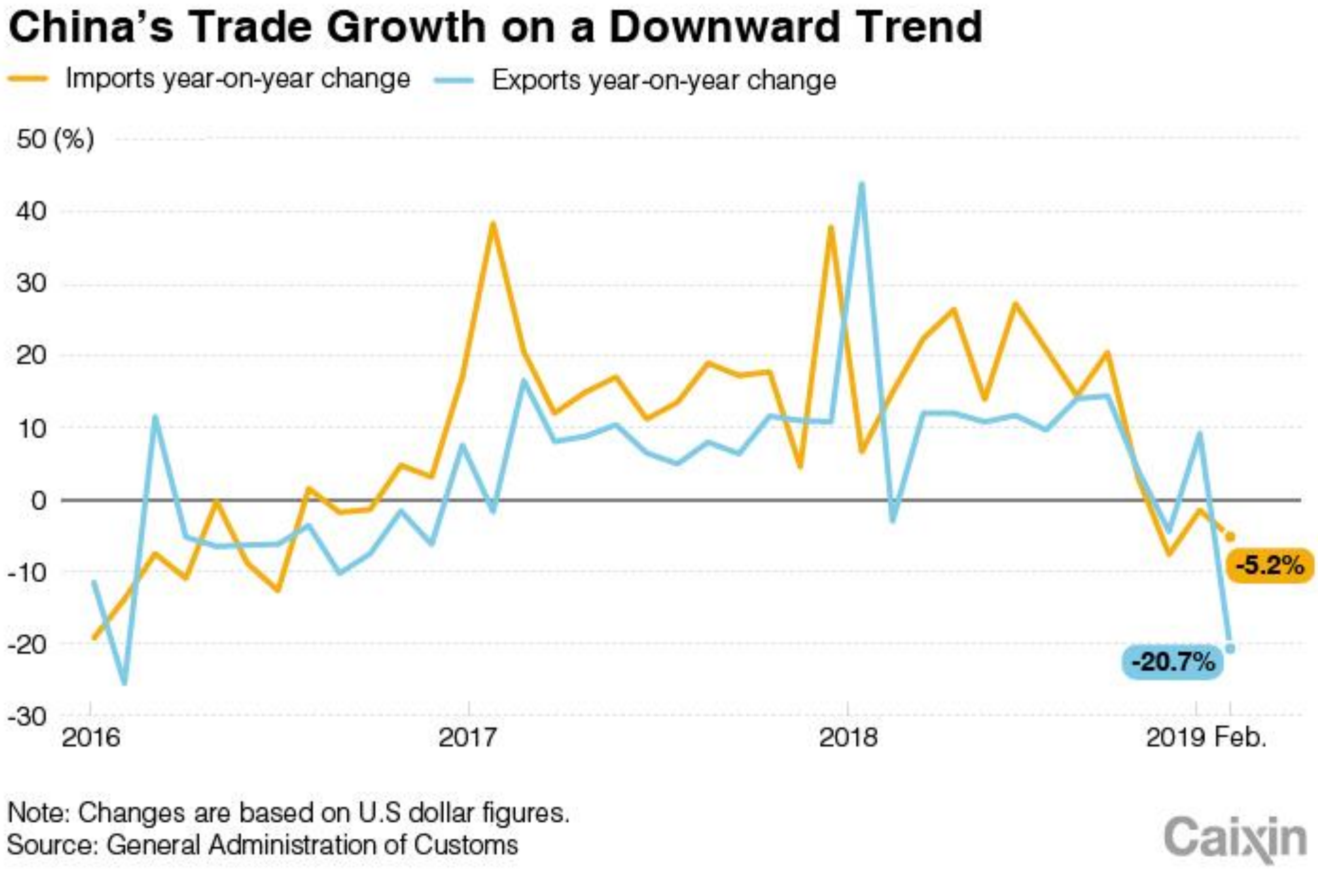
Beijing has to worry about its slowing economy too, which was worsened by the trade conflict. In October 2018, there was a slowdown in car sales, property, and consumer electronics. Vehicle sales fell by as much as 11.7%, smartphone shipments have gone down 15.2%, and real estate floor space sold in square meters shrank by 3.1%.



In response to the tariffs, China has allowed the value of the yuan to fall to offset some cost pressure. This has prompted some third party economies to increase the purchases of Chinese goods. Chinese products have become more competitive than ever. In spite of this, August has seen a decline of 1% year-on year of Chinese exports. The decline came amid a persistently weak global demand and the escalation of the trade war with the US.

"***Exports are still weak even in the face of substantial yuan currency depreciation, indicating that sluggish external demand is the most important factor affecting exports this year,***"

- Zhang Yi, economist at Zhong Hai Sheng Rong Capital Management.



On the other hand, t has been known for years that China has been taking initiatives to internalize its economy and establish a self-sustaining system, where domestic demands are met by domestic supply. In a strategic plan issued by Chinese Premier Li Keqiang and his cabinet in May 2015, they plan to move China away from manufacturing cheap, low quality products to produce products and services of higher value. Their vision is to increase the Chinese-domestic content of core materials to 40% by 2020 and 70% by 2025. The plan focuses on high-tech fields including the pharmaceutical industry, automotive industry, aerospace industry, semiconductors, IT and robotics etc., which are presently the purview of foreign companies. The US-China Trade War may just be the shove they needed to reach this goal.

What Malaysia Stands to Gain and Lose

As of August 5, 2019, the People's Bank of China set the yuan's rate below 7 per dollar, in response to new tariffs of 10% on $300 billion worth of Chinese imports imposed by Washington. The result? An increase in the value of Malaysian Ringgit compared to the yuan, making all Chinese imports into Malaysia significantly cheaper. Malaysian firms and importers are able to purchase more Chinese goods at lower prices, thus decreasing the production costs. This may be passed on to consumers who enjoy reduced prices. A sudden spike in the imports of raw materials and components will enable the Malaysian manufacturing industry to increase their output, driving prices downwards and improving the competitiveness of Malaysian products internationally. It is possible that demand for labor may rise as well, leading to more employment opportunities to help increase the GDP and decrease the wealth gap.

A diversion of trade will benefit Malaysia too. Malaysian exports may be able to substitute Chinese exports to the US. A fall in the price of imported producer goods from China, and a rise in demand from the US for Malaysian substitute products, or vice versa, could reveal more opportunities Malaysia can capitalize on. However, they aren’t alone. For instance, Malaysia experiences serious competition from Thailand on the exports of solar cells.

Finally, a possible investment diversion and enterprise relocation may be in store for Malaysia as both China and the US are turning to Malaysia for the production of certain goods. Production lines are being planned in Kuala Lumpur and Penang, to circumvent the tariffs.

However, demand may fall for imports and exports from both China and the US, affecting the demand for Malaysian products as well. How? Say that pre-trade war China used to purchase huge quantities of Malaysian electronics parts and components to manufacture machines to be sold off to the US, like a refrigerator. Now after the trade war has begun and tariffs have been slapped on Chinese imports, American demand for Chinese refrigerators would take a dive, and so would the demand for the electrical components from Malaysia too. This, compounded by the devalued yuan which makes Malaysian exports to China pricier, might reduce trade between the nations.

The Unexpected Winners

Vietnam, among other low-cost exporters, are the clear beneficiaries of the Sino-US Trade War. In order to circumvent tariffs and keep prices low, companies have been rerouting supply chains to other low-cost manufacturing economies such as Vietnam. This has caused a surge in foreign investments, and the United States is importing 40% more from Vietnam in 2019 compared to 2018. Canada with its lobster industry is among the winners as well. China lobster imports have taken a hit, because up until the Trade War, a majority of lobster imports came from the US. To evade the tariffs while maintaining domestic lobster supply, Chinese importers have turned to Canada. In recent months, Canadian lobstermen have enjoyed an unexpected boost in sales and growing demand while Washington undercuts its own lobster industry. Theoretically, some European companies may benefit by slipping into niches if the US continues to block out Chinese businesses or vice versa, however this only applies to a few companies or sectors.

Third-party Losers?

The Trade War also represents a looming threat to the European Union (EU), and for good reason. The EU is heavily dependent on trade for economic growth, so an overall slowdown in global commerce caused by tit-for-tat import taxes provokes uncertainty and undermines confidence. Germany’s export-dependent industries face the brunt of the issue. German car manufacturers groups have slashed their production forecasts, citing trade conflicts that plunged export-dependent manufacturers into a recession.

Conclusion

Between the US and China, both sides are losing. The real question is: “Who loses more?”. In the near-term the greater pain would likely be felt by China, as it’s more dependent on trade and the US has an economy that’s 50% greater. Data has shown that the Chinese economy is slowing at faster rates, pointing to its weaknesses. However, the suspension of soybean imports has severely damaged the US agriculture industry. Furthermore, the US risks losing its largest trade partner if China successfully obtains replacements for US goods, such is the case between American and Brazilian soybean imports to China.

The real winners here are cheap-manufacturing economies that receive increased investments and trade from other nations which are seeking substitutes to China amid the trade war and growing uncertainty.

Prospects for the EU are mixed. On the one hand, it may benefit by replacing either the US or China in certain industries, on the other, the trade conflict threatens to force a plummet in economic growth in a trade-dependent economy.

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