

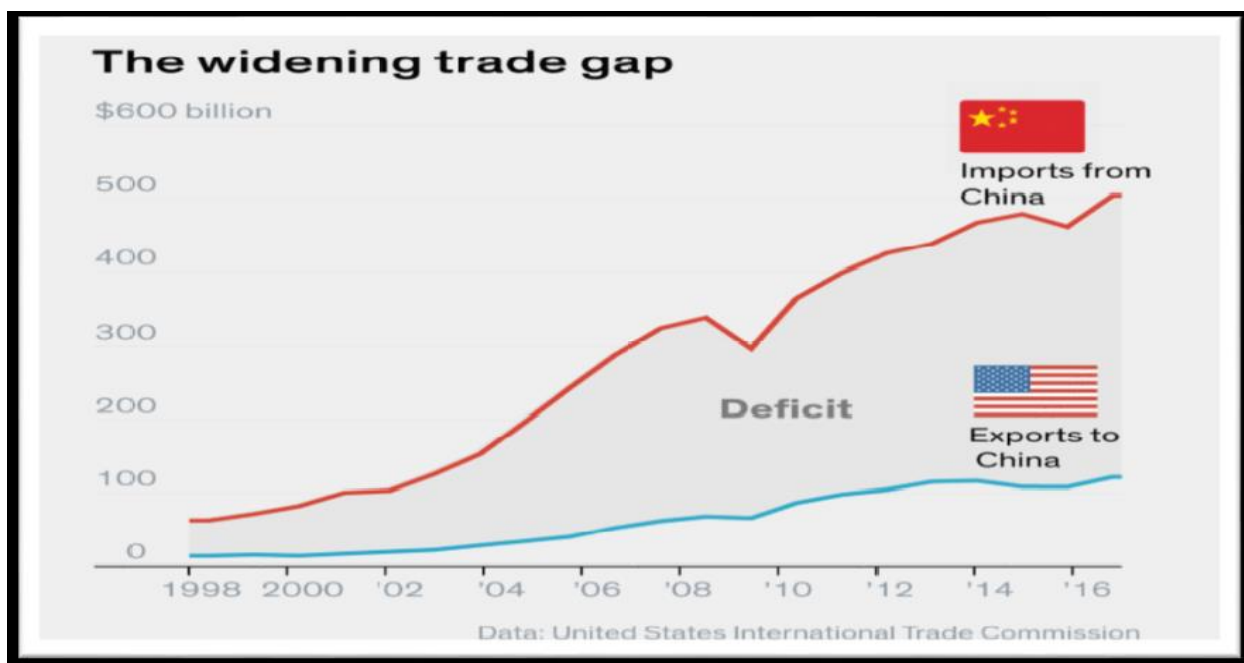
## Trade war between the USA and China: Who gains? Who loses?

### Does Malaysia stand a chance to benefit?

March 22, 2018, President Donald Trump signed a memorandum to impose tariffs on imports from China, equivalent to an estimated \$60 billion, under Section 301 of the Trade Act of 1974, citing "China's theft of the USA intellectual property and trade secrets." China's Ministry of Commerce imposed tariffs on 128 merchandise imported from the United States including soybean (the main merchandise exported from the USA to China) soon afterward. The trade war against China and USA has begun.

A trade war is a situation in which two or more countries raise import taxes and quotas to protect their own economies.<sup>(1)</sup>

The USA has driven the world economy and has promoted the process of economic globalization by signing tariff agreements and founded economic organizations especially the IMF and the World Bank. However, the USA is greatly affected by international economic fluctuations. Domestic enterprises are leaving the country, making Americans think that they aren't benefiting from economic globalization. A new populism sprung up and supported Trump to be elected as President.



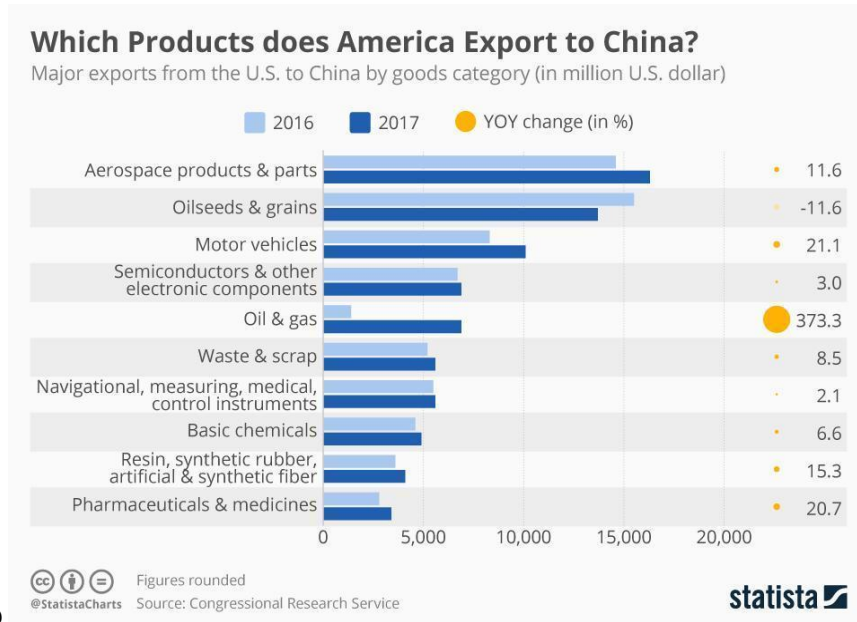
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<sup>1</sup> <https://dictionary.cambridge.org/dictionary/english/trade-war>

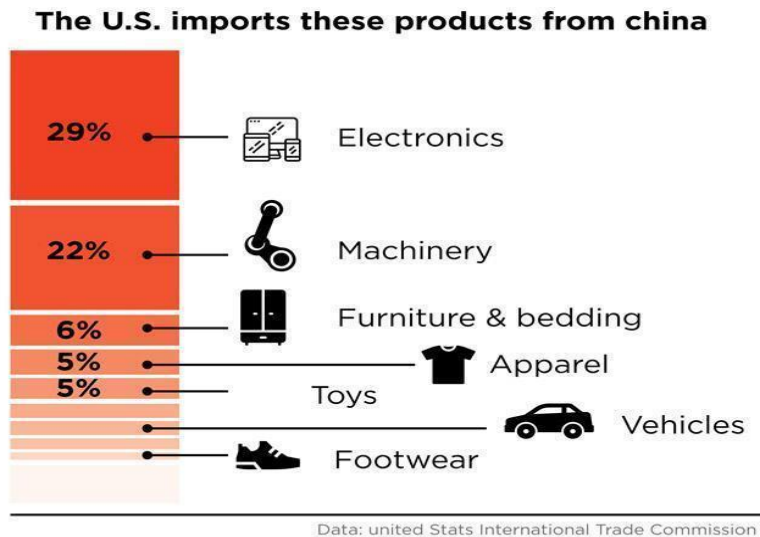
<sup>2</sup> [www.usitc.gov](http://www.usitc.gov)

The deficit of the USA against China was increasing and reached 47.25% (3) of the total volume of trade in 2017. In the long term, the deficit costs caused chronic patterns of factory closures and job losses in the USA. The imbalance of bilateral trade escalates the conflict between China and USA and thus led to a trade war.

The merchandise USA exported to China mainly are aerospace products, oilseeds and grains. Meanwhile, they mainly imported electronics and machinery from China.(6) President Trump took the deficit as an unfair trade practice.



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<sup>3</sup> <https://www.textiletoday.com.bd/impact-trade-battle-us-china-apparel-industry/products-those-are-imported-by-the-us-from-china/>

<sup>4</sup> [http://www.xinhuanet.com/fortune/2018-09/24/c\\_1123475272.htm](http://www.xinhuanet.com/fortune/2018-09/24/c_1123475272.htm)

<sup>5</sup> <https://www.statista.com/chart/13418/major-exports-from-the-us-to-china-by-goods-category/>

<sup>6</sup> <http://data.mofcom.gov.cn/report/TR-US201803.pdf>

The USA claimed that China was stealing intellectual property (IP) from their enterprises. A report “How Chinese companies Facilitate Technology Transfer from the United States”<sup>(7)</sup> exposed Chinese companies acquire IP of the USA through :

- 1) Foreign direct investment ;
- 2) Venture capital investment;
- 3) Cyber espionage, etc.

## U.S. Soybean Exports to China



Source: United States Department of Commerce

This economic sanction is the revenge of the USA to China. 5G technology is dramatically useful in the digital economy, military, transportation, and communication. Undeniably, whoever owns 5G technology will be the up-and-coming king of the world. An underlying cause of the USA warring on China is to slow down the development of China’s 5G technology.

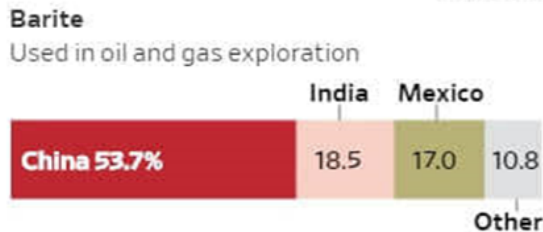
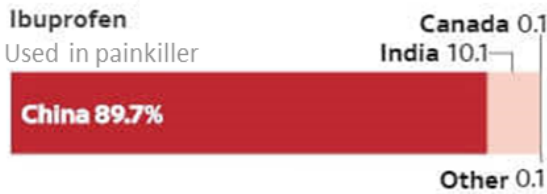
The USA is doing a disservice by imposing tariffs. Since the beginning of the trade war, the USA had imposed 60 billion tariffs on imports from China. The tariffs have reduced the export amount of American soybean to China over 70% and caused its price to drop from 11 USD/bushel to 8 USD/bushel. The soybean farmers claimed they couldn't get the subsidy on time and had difficulty to get loans from bank due to the low prices. <sup>(8)</sup>

<sup>7</sup> <https://www.uscc.gov/Research/how-chinese-companies-facilitate-technology-transfer-united-states>

<sup>8</sup> <https://youtu.be/cGRgt2yewi4>

## A Taxing Headache

China is the U.S.'s dominant supplier of many important chemicals, which led the Trump administration to exempt them from tariffs.



Note: Based on dollar value of imports, January-July 2018

Source: U.S. Department of Commerce

American enterprises seeking raw materials can be exempted from tariffs, China is an indispensable supply country that can supply quality materials. Even the American enterprises were able to find the substitution, they might be overcharged due to the uprising trade friction. Joseph Mollica, the CEO of LNK International said “The tariff will cause a shortage of Ibuprofen in the domestic market. It won’t harm China, but help India enter the USA market, making the job opportunities of the USA manufacturing industry become lesser.

China is the “World Factory”. Americans depend on merchandise imports from China but the tariffs led to higher costs for domestic enterprises. The USA imported 42% of its apparel and 69% of its footwear from China. These increased burdens on the Americans. A family of four in the USA has an extra 850 dollar expenditure per year during the trade war, said by the American Tax Foundation.

Most American well-known businesses have their factories in China for process work. Their products that are exported back to the USA will certainly be more expensive because of the tariffs. The tariffs are an indirect tax on Americans and it has cost American consumers, workers, and businesses more than 30 billion USD. More than 300 businesses and trade associations convinced the government to stop the tariffs, and 600 businesses around the country wrote to President Trump opposing the tariffs. The consequences of tariffs imposed have to be borne by the American people and enterprise. The voices of objecting tariffs are growing day by day.



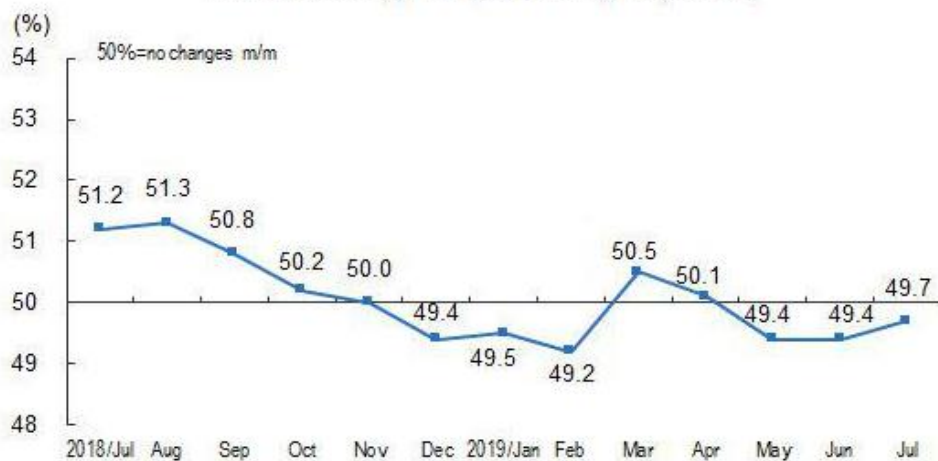
SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

(9)

The GDP growth for the second quarter of China was 6.2%, it was the lowest growth rate for the past 27 years. It was happened not mainly because of the trade war but China governors are transforming China’s economy, shifting its focus from overseas market to domestic market in the plan of “Made In China 2025”.

**Manufacturing PMI (Seasonly Adjusted)**

(10)



PMI precedes changes in the trend in major estimates of economic activity and output. (11) Among the five sub-indices composing PMI, the production index (52.1%) up 0.8% June, was higher than the threshold, indicating that the overall expansion of manufacturing has accelerated. As shown, the manufacturing industry has an indication of growing even under the attack of the United States’s tariff. Hence, the tariff imposed by the USA will no longer have a great effect on China.

<sup>9</sup> <https://tradingeconomics.com/china/gdp-growth-annual>

<sup>10</sup> [http://www.stats.gov.cn/english/PressRelease/201907/t20190731\\_1683178.html](http://www.stats.gov.cn/english/PressRelease/201907/t20190731_1683178.html)

<sup>11</sup> <https://www.investopedia.com/terms/p/pmi.asp>

China has long led the world in 5G technology. It's the world's No. 1 telecom supplier and No. 2 phone manufacturer. <sup>(12)</sup> Huawei's 5G technology is used by many countries(including the USA Allies). The USA was concerned that China will leapfrog them technologically, affecting its economy in the future. They try to tie down China's economy and make it difficult in funding Huawei's 5G development by starting a trade war. Huawei has been completely cut off from the USA manufacturing technology. Google will not be available on new Huawei phones, and American computer-chip companies also cut off the supply of the 5G on which Huawei relies. However, the saleroom of Huawei after prohibition declared by Trump was not going down but increasing. This shocked the whole world.

China had prepared backroads for themselves as its economy turns to domestic demand. China adopted the "Belt and Road Initiative" project a few years ago, their economies and technology are growing rapidly and many countries became its business partners. China's economy and trade is expected to be very stable in the future.

Besides, Huawei was a big customer of Broadcom, an American company that leads in the semiconductor solutions business. The prohibition of Huawei caused the share prices of Broadcom wobbling. It also affects OEM customers all over the world not to place orders with Broadcom, so as to reduce inventory level, resist possible risks. Many semiconductor companies in the United States, such as Micron, depend on Huawei for growth (in the first half of fiscal 2019, Micron received 13% of its revenue from Huawei). This prohibition severely affected the USA semiconductor industry and worsens its economy. <sup>(13)</sup>

However, private companies are running short of cash in China. There are \$200 billion in "commercial acceptances"(IOU) circulating in the financial system. By July 2019, 281 companies had bankruptcy, more than the same period last year. However, banks are reluctant to lend money to them, willing to lend to state-owned enterprises, but they aren't creating new job and other sources of funding, leading a circular effect of issuing IOU to each other, illustrating the seriousness of Chinese companies' lack of cash.

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<sup>12</sup> <https://www.cnet.com/news/huawei-ban-full-timeline-on-how-and-why-its-phones-are-under-fire/>

<sup>13</sup> <http://m.iwshang.com/article/38939>

The latest conflict is the USA accused China of letting the Yuan devalued below 7 per USD. <sup>(14)</sup> The fall of Yuan's value stimulated the exports of China and counter the damage brought by tariffs. American companies that once relied on cheap Chinese suppliers are now having to look elsewhere. <sup>(15)</sup> Trump administration has labeled China as a currency manipulator. China denied it immediately. The trade war becomes currency war. As a strike back, China canceled the procurement of USA agriculture products. On 1 August 2019, President Trump announced to impose tariffs on an additional \$300 billion of Chinese goods on the 1 September 2019 to revenge.

The USA policies including tariffs and sanctions on Huawei were receiving objections from her people, enterprises and the allies. Trump need more achievements in this term to run for the election in 2020, but he couldn't fulfill the economic aids the Americans wanted. As China's economy becomes more domestic, the sanction will have little impact on her economy. China canceled the agriculture products' procurement and gave a heavy blow to Trump's traditional farmers' electoral district. USA is facing serious domestic strife and foreign aggression. Hence, The USA is losing meanwhile China is gaining more positive response in this phase.

At the macro level, as the trade war between China and the USA have fervorization, the rising tariffs urged domestic industries in both countries to set up factories in Southeast Asia. Nomura Holdings listed Malaysia as the fourth-biggest beneficiary of trade transfers after Vietnam, Taiwan, and Chile. Malaysia would benefit from US import substitution with respect to semiconductors and from China import substitution in terms of natural gas. The inflow of foreign enterprises provides many job opportunities, that drives economic development and raises the national income.

Minister of Finance Mr.Lim Guan Eng said Malaysia is benefiting from the transfer of investment brought by the restructuring of the global supply chain, Lim also pointed out that the transfer was reflected in the approved foreign direct investment, which increased by 48% to RM80.5 billion in 2018 from RM54.4 billion in 2017. <sup>(16)</sup>

Malaysia is a part of the Belt and Road Initiative. The local logistics infrastructure such as railway, airports were ready. It's easier for China to relocate their businesses here and utilise the logistic network.

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<sup>14</sup> <https://www.nytimes.com/2019/08/06/business/economy/china-currency-manipulator.html>

<sup>15</sup> <https://www.dw.com/zh/%E5%BE%B7%E8%AF%AD%E5%AA%92%E4%BD%93%E4%B8%AD%E7%BE%8E%E6%89%93%E6%9E%B6-%E5%85%A8%E7%90%83%E5%90%83%E5%9C%9F/a-49918500>

<sup>16</sup> <https://www.youtube.com/watch?v=8J2ha5Ndkec>

However, the escalation of the US-China trade war could add more risks to Malaysia's economy. Malaysian Industrial Development Finance Berhad (MIDF) researchers said Malaysia's export performance was expected to be vulnerable in 2019 third quarter. <sup>(17)</sup>

On 2nd July 2019, America's Commerce Department announced punitive tariffs up to 456% on steel products from Vietnam. It was a warning sign to Tun Dr. Mahathir. Malaysia has been put into Monitoring List by the US Treasury Department and one of the criteria is bilateral trade surplus balance with the US of a minimum of US\$20 billion in May showing that Malaysia could be the next target of the USA and might have the same destiny with Vietnam confronted by the unilateral policy of the USA in her development by imposing punitive tariffs on Malaysia.

Despite these risks, it's a good opportunity for Malaysia to fully cooperate with ASEAN countries. ASEAN needs to show more solidarity. In addition to developing the economy in an all-round way, ASEAN also needs to enhance their status and voice in the world, to more effectively safeguard their own interests, monitor the process of the trade war, and reduce the impact of the trade war on the world economic market.

Malaysia enjoys a favorable geographical position, economy, trade, culture and language in southeast Asian countries. A lot of Chinese and American investment will flood into Malaysia in the fields of electronics, manufacturing and food processing due to the war. Therefore, Malaysia can seize this opportunity to strengthen local manufacturing, especially the industry 4.0 revolution consolidate and develop our economy.

Therefore, the trade war is giving Malaysia opportunities to improve the existing bad conditions and develop. The Malaysian government should take advantage of this to devote to the development of industry and technology and by working together with its people, to create a new, more progressive and prosperous Malaysia.

We can only assess who gains and who loses in this moment, but we can't confirm who will win in the end. Warren Buffett says an escalation of the U.S.-China trade dispute would be bad for the whole world. <sup>(18)</sup> Surely, launching the trade war won't be a win-win situation, as winning is not guaranteed, both parties might lose in the long term and the global economy will be the victim.

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<sup>17</sup> <https://www.nst.com.my/business/2019/08/510742/escalated-china-us-trade-war-add-more-risks-malaysias-economy>

<sup>18</sup> <https://www.cnbc.com/2019/05/06/warren-buffett-if-we-have-a-trade-war-it-could-be-very-bad-for-the-whole-world.html>



The trade war exposed the world to the risk of economic recession. Malaysia may benefit from it but when the economic storm swept Malaysia away, the benefit we got will eventually fade out. As a defense, world leaders have to promote the development of the world economy as the basis and strengthen regional cooperation to avoid any kind of war and maximise the welfare of human society.

(2000 words)

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