Trade tariffs & its impact on ASEAN

Treasury Research & Strategy

OCBC Bank

Executive Summary

- Now that the 6 July tariffs (namely 25% tariffs on $34b of Chinese imports) have kicked in, market players are wary of further escalation. China had announced that it would raise tariffs of the same scale and length in retaliation. However, with Trump suggesting a final amount of another US$500b, China may find it difficult to maneuver and retaliate as the stakes rise.
- The escalation of tensions could pose downside risks to the global growth story. The OECD estimates that a potential trade war (proxied by a 10% increase in trade costs between the US, EU and China) could lower global growth by 1-1.5% points in the medium term and around 2% in the three regions that impose trade restrictions. The Peterson Institute estimates that a full trade war (proxied by a 45% tariff on non-oil imports from China and a 35% tariff on non-oil imports from Mexico, with a symmetrical retaliation) would imply large job losses in the US (~4.8 million jobs) but mostly concentrated in the non-trade service sector.
- That said, the impact on ASEAN may vary due to different dependence on US-China trade and the potential recalibration of production lines and/or redirection of trade flows due to the tariffs. Singapore and Malaysia are potentially the most exposed, while Indonesia, Philippines and Vietnam may have less to lose based on our scorecard using the four criteria we chose.

Executive Summary: Potential impact on growth

- **We identify two possible scenarios:** (1) a mild trade war with US$50b of US tariffs, and (2) a more severe trade war with US$250b of US tariffs.
- Under a mild trade war scenario (1) with US$50b of US tariffs, the impact on 2018 GDP growth is fairly negligible.
- **Under a more severe trade war scenario (2) with US$250b of US tariffs, the downside risks to China and other Asian economies' 2018 GDP growth forecast range between 0.1% to 0.5% points.**

Total trade growth (yoy)	SG	CN	JP	KR	HK	MA	ID
Empirical 5M18 (January-May)	5.7%	16.6%	11.6%	10.9%	10.1%	17.1%	16.9%
No tariffs	4.0%	7.0%	7.3%	8.7%	5.8%	7.6%	9.1%
Scenario (1): US$50b tariffs	3.3%	6.5%	6.8%	8.1%	5.3%	6.5%	8.6%
Scenario (2): US$250b tariffs	2.2%	3.0%	3.1%	3.7%	4.1%	3.5%	4.5%
Impact to GDP growth under scenario (2)	**-0.3%**	**-0.5%**	**-0.2%**	**-0.3%**	**-0.4%**	**-0.3%**	**-0.1%**
Baseline GDP growth forecast (no trade war)	3.0%	6.5%	1.1%	3.0%	3.6%	5.5%	5.1%
Revised GDP growth under scenario (2)	**2.7%**	**6.0%**	**0.9%**	**2.7%**	**3.2%**	**5.2%**	**5.0%**

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OCBC Trade War Scoreboard: Impact on ASEAN

	Dominance of Manufacturing Sector	Trade Exposure	Integration in Global Supply Chain	Investment Environment	Total
ID	5	3	5	4	17
MA	6	6	7	4	23
PH	5	4	5	2	16
SG	5	7	7	4	23
TH	7	6	6	2	21
VN	3	7	6	3	19

Scores assigned range from 1-10 (the higher the score, the higher the potential impact that trade tensions could have on the country), based on 4 criteria:

1. The dominance of a country's manufacturing sector: calculated by manufacturing sector as a percentage of GDP.
2. A country's trade exposure: calculated by total trade as a percentage of GDP.
3. Integration in the global supply chain: Defined by the WTO as the sum of foreign value-added content of a country's exports and value added supplied to other countries' exports.
4. Investment environment: Calculated by taking investments from US or China as a percentage of total FDI inflows.

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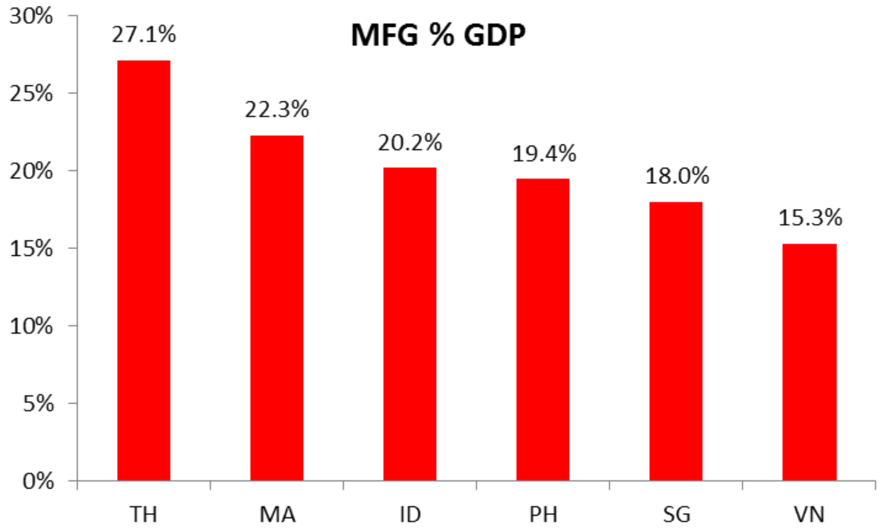
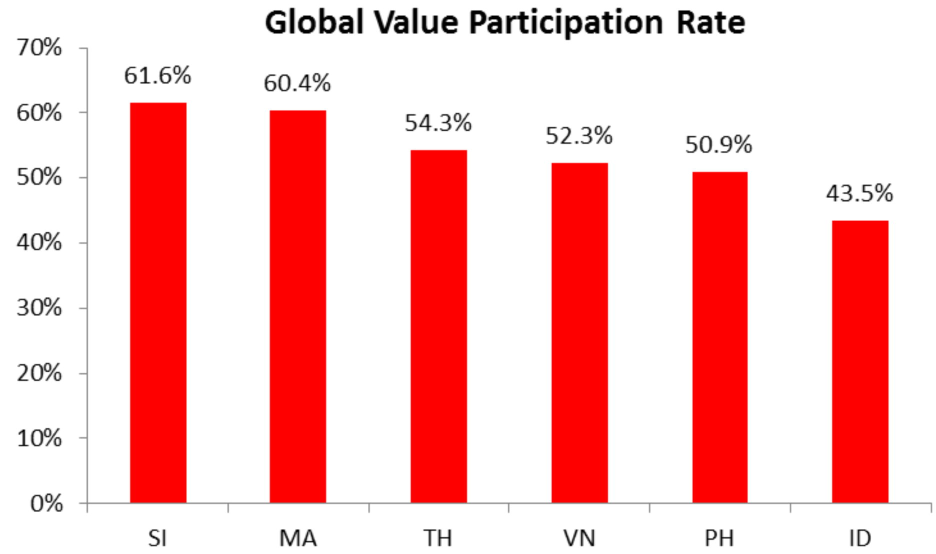
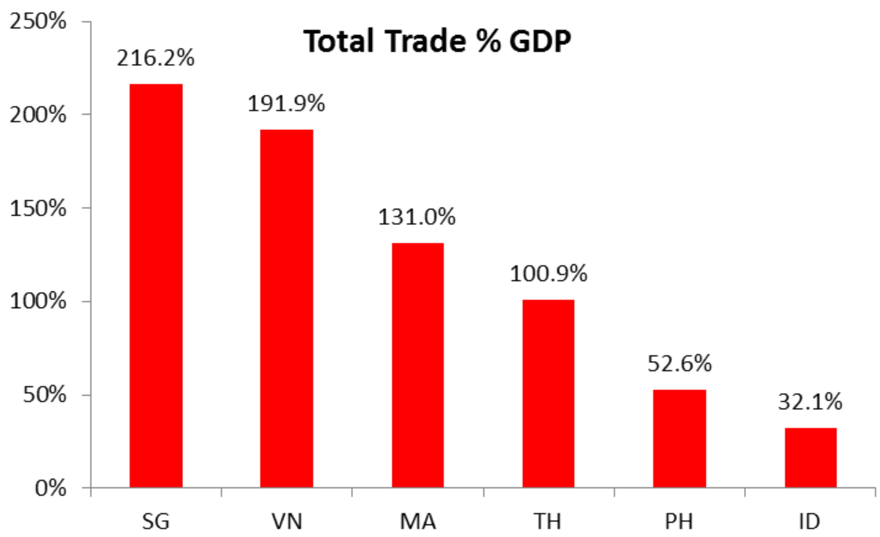
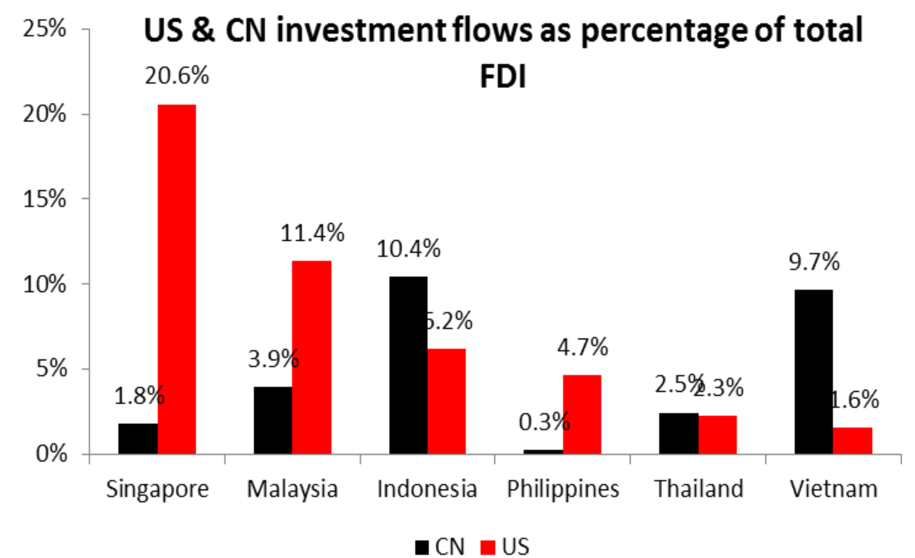
Source: CEIC, OCBC Bank, WTO
*Countries include: SG, MA, ID, PH, TH & VN based on information available

Impact on ASEAN: Scoreboard









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Source: CEIC, OCBC Bank, WTO

Tariffs in focus: when two giants fight

- **The first leg of US tariffs with effect from 6 July applies to 818 Chinese goods with a total value of US$34b**. The second leg, which includes 284 goods amounting to about US$16b of Chinese imports, would come later and be subject to additional public comments. The list generally hits industrial goods rather than consumer items, according to the USTR statement. It generally focuses on products from industrial sectors that contribute to or benefit from the 'Made in China 2025' industrial policy, which include industries such as aerospace, information and communications technology, robotics, industrial machinery, new materials, and automobiles, but does not include goods commonly purchased by American consumers such as cellular telephones or televisions.
- **The White House is considering additional tariffs on another US$200b of Chinese goods**. China has raised import duties on US$34b of US imports, including soybeans, electric cars and whiskey. Trump has also slapped tariffs on steel and aluminum imports from Canada, Mexico and European allies. In response, the EU imposed tariffs on US$3.3b of US imports on 22 June. However, the US is threatening further tariffs on cars imported from the EU, raising the specter of a global trade war.

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US is China's largest trading partner:

- China's trade linkages with Asia are significant as well.

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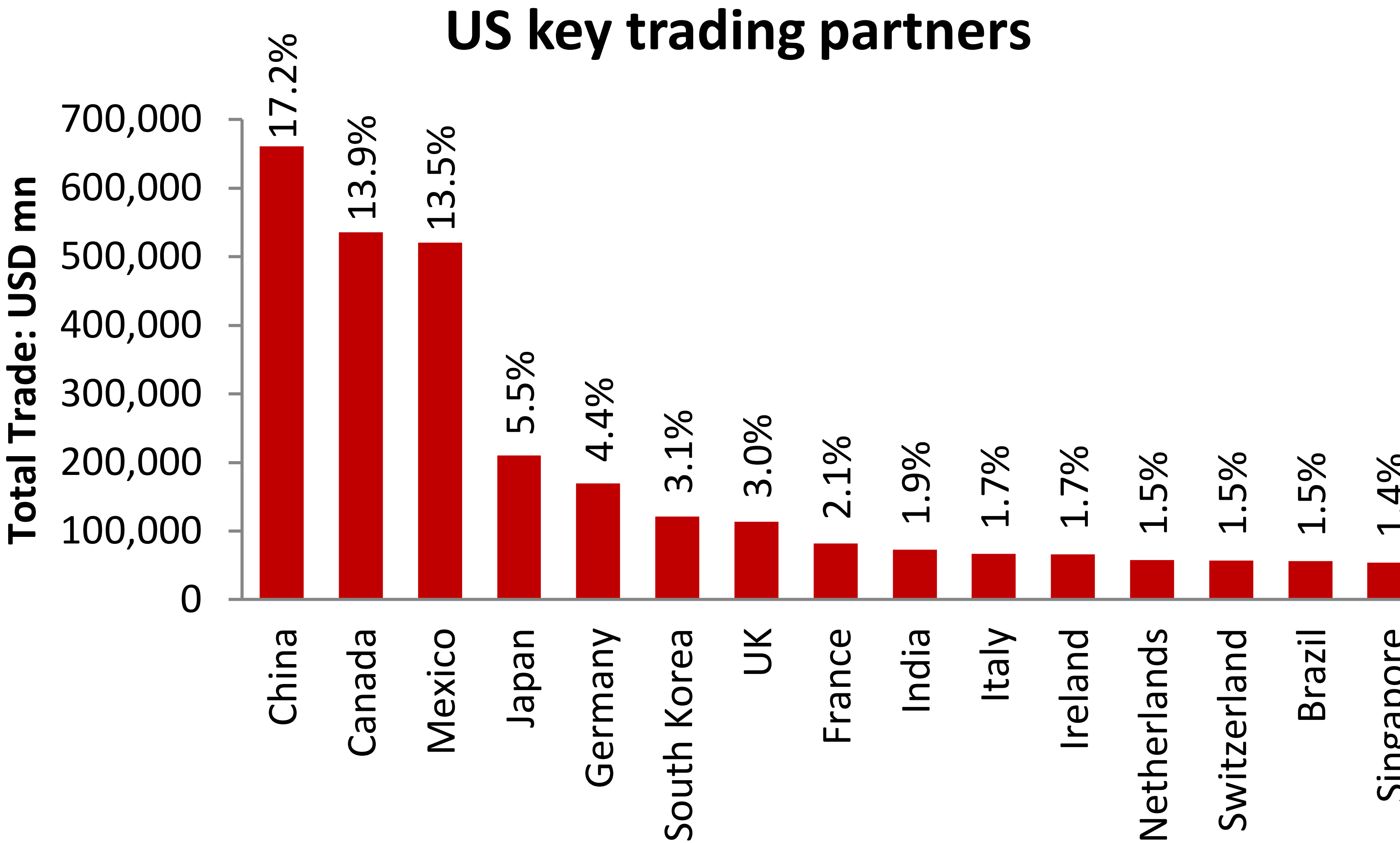
China is also US' largest trading partner:



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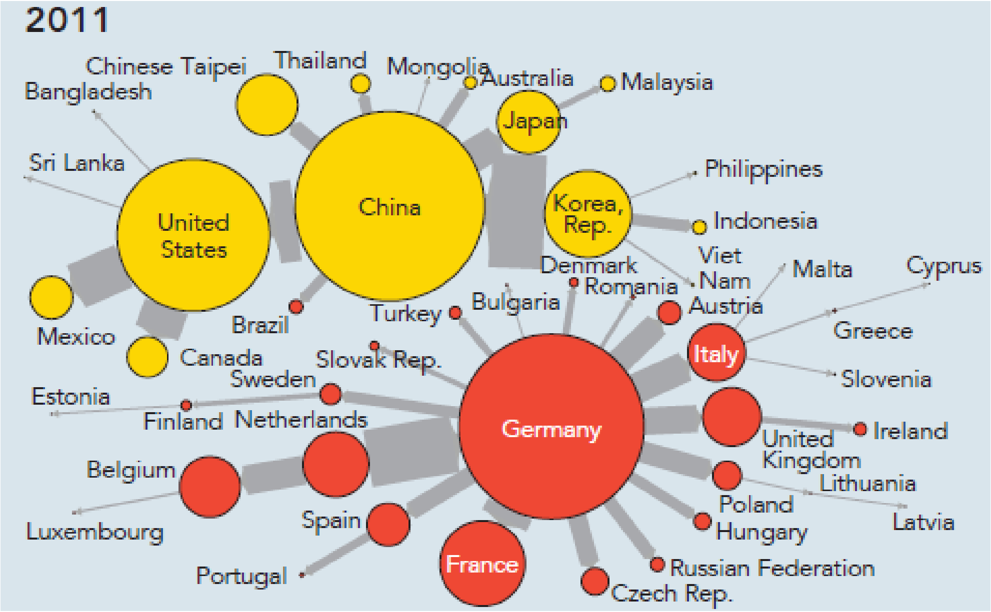
Source: Bloomberg, CFTC, OCBC Bank
(%) refers to % of total trade with respective country

Other economies may be affected:

- Looking at the foreign value-added embedded in bilateral manufactured exports, China is the core of the Asia-Pacific community by transferring a large portion of foreign value added to other countries. As more complex global value chains developed over time, more countries joined through some main hubs like US, China, Germany and Korea.
- Philippines and Indonesia export the highest share of raw/intermediate goods to China as a percentage of their total exports to China.



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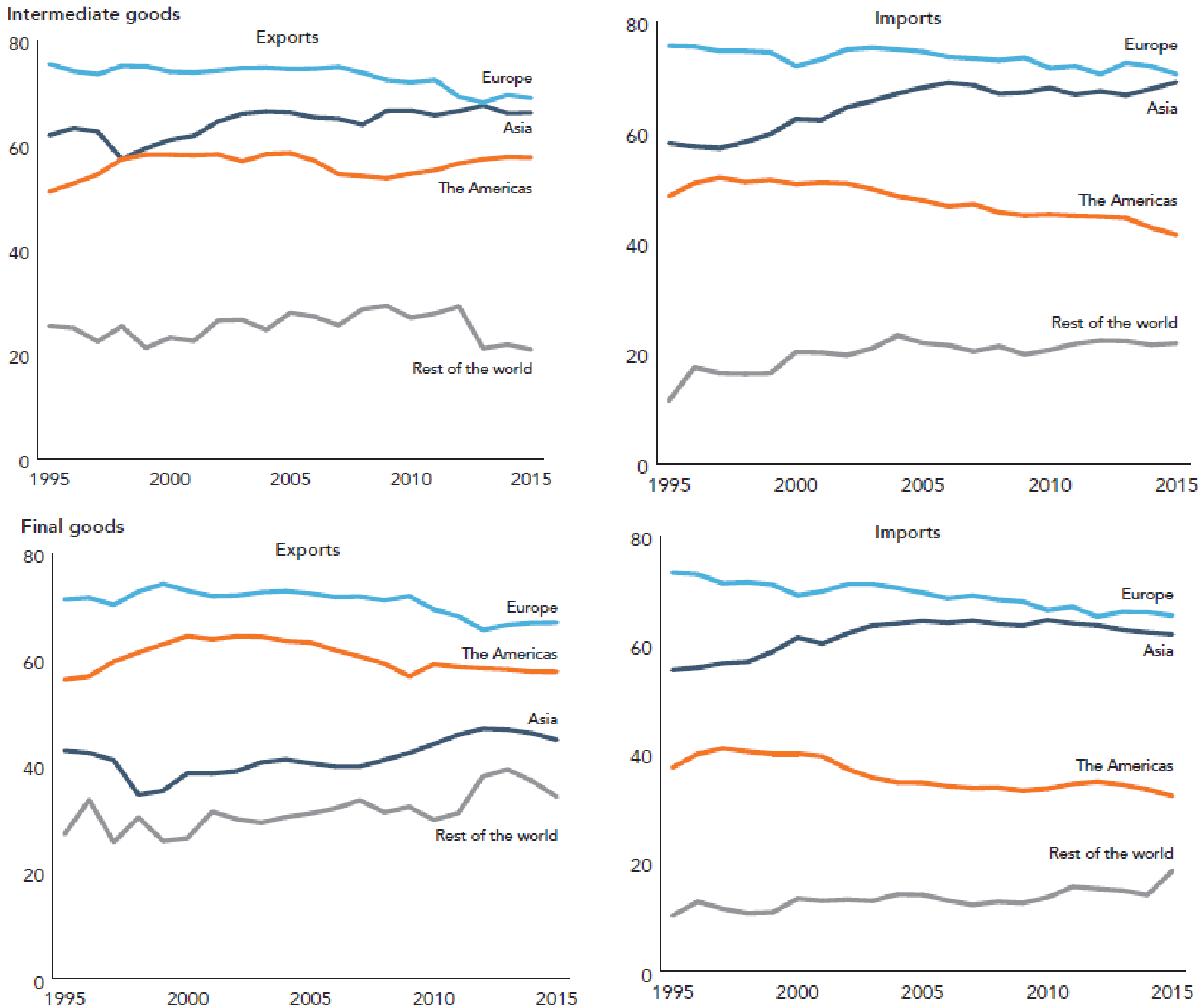
Source: CEIC, OCBC Bank, WTO
*Assuming that China is a global factory, share of intermediate goods are calculated on the basis that raw materials include: Coal, Crude Petroleum Oil, Iron Ore & Concentrate, Copper Product and Aluminium Product

Global value chains are still largely regional:

Intraregional trade in intermediate and final manufactured goods (as % of regional total) from 1995-2015

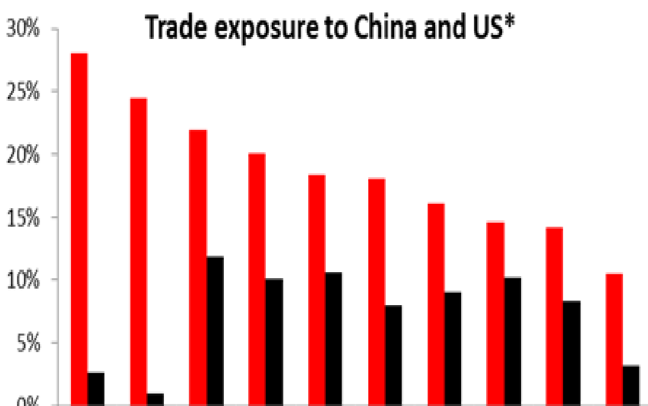


Source: WTO, OCBC

- Global value chains are organized mainly at the regional level. About 60% of Asia's exports of final manufactured goods between 1995-2015 went to extra-regional markets, compared to only about 40% of the Americas' exports. Hence, Asia may potentially be more impacted by tariffs levied by the US.

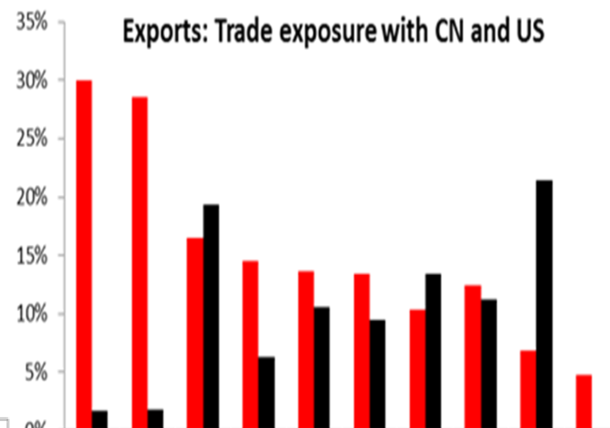
Impact on ASEAN from a US-Sino trade war:

- In a nutshell, economies that are most exposed to trade tensions are those that are:
  1. Most exposed to US & China in trade and/or
  2. Have a dominant manufacturing sector that is plugged into the global/regional value-chain.
- Generally, Singapore and Malaysia are the most open ASEAN economies. However, Myanmar (28%), Laos (24.5%), Vietnam (22%) and Indonesia (18.1%) trade most heavily with China. Meanwhile, Vietnam (11.9%), Malaysia (10.6%) and the Philippines (10.2%) are most exposed to the US.

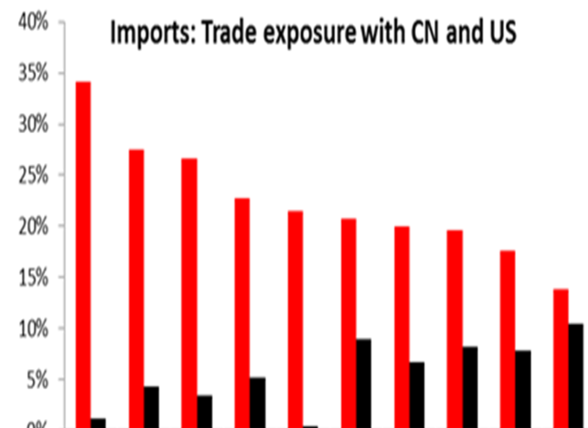


	MM	LA	VN	CM	MA	ID	TH	PH	SG	BRN
CN	28.0%	24.5%	22.0%	20.1%	18.4%	18.1%	16.1%	14.6%	14.2%	10.5%
US	2.7%	1.0%	11.9%	10.1%	10.6%	8.0%	9.0%	10.2%	8.3%	3.2%

*Based on total trade in 2017



	MM	LA	VN	SG	ID	MA	PH	TH	CM	BRN
CN	29.9%	28.6%	16.5%	14.5%	13.7%	13.5%	10.4%	12.5%	6.9%	4.8%
US	1.7%	1.8%	19.3%	6.3%	10.5%	9.5%	13.4%	11.2%	21.4%	0.0%



	CM	VN	MM	ID	LA	BRN	TH	MA	PH	SG
CN	34.1%	27.5%	26.6%	22.8%	21.5%	20.8%	20.0%	19.6%	17.6%	13.8%
US	1.2%	4.4%	3.4%	5.2%	0.4%	8.9%	6.7%	8.3%	7.8%	10.5%

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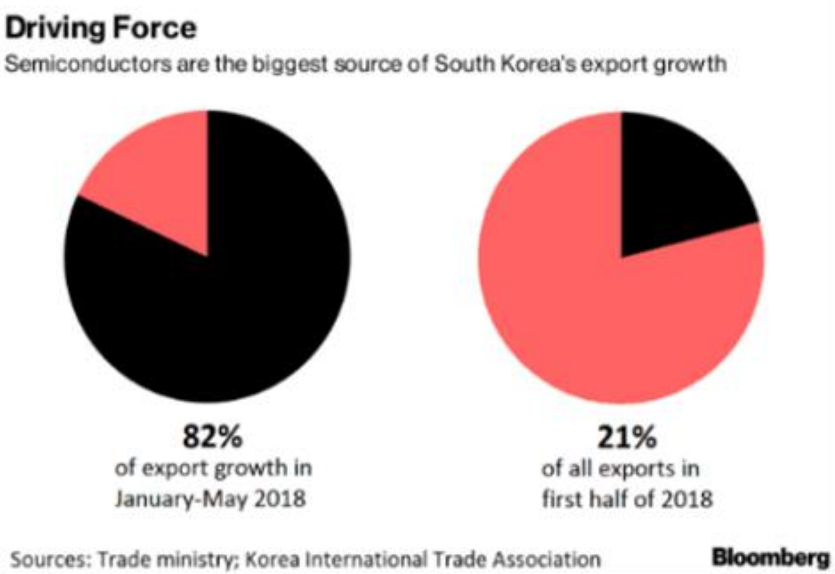
Source: CEIC, Bloomberg, OCBC

Spillover is likely to hit Japan, Korea & HK first:

- While Myanmar, Laos and Vietnam are most dependent on China for trade, China's closest neighbours, namely Japan, Korea and Hong Kong, are most vulnerable to a US-Sino trade war because they export mostly intermediate goods to China. Take South Korea and semiconductors for instance (see charts below).



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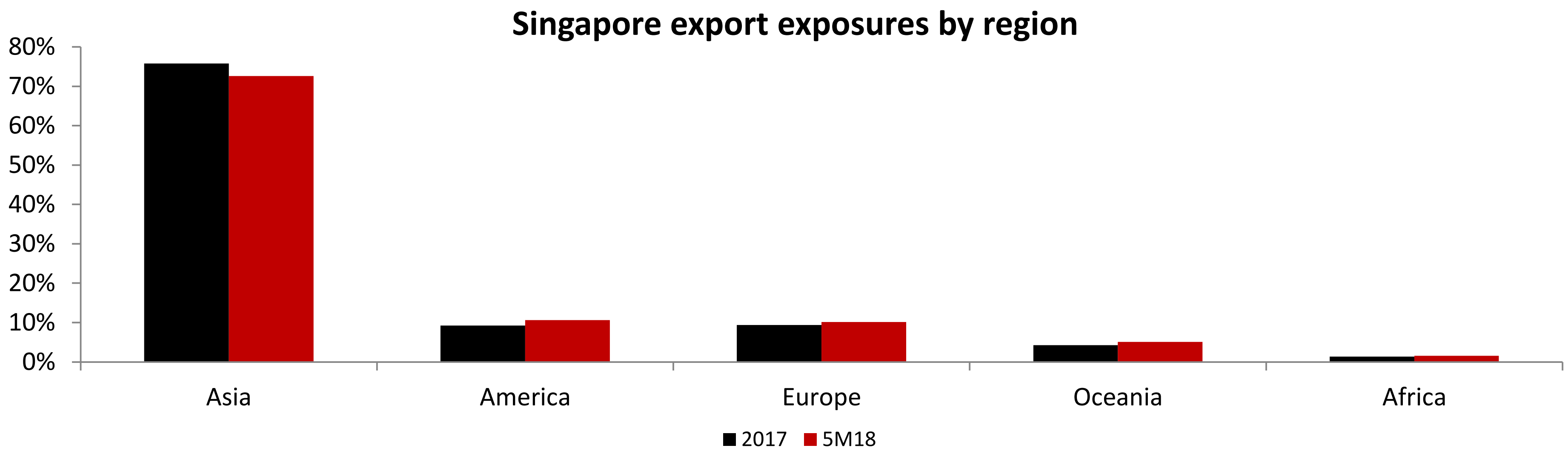
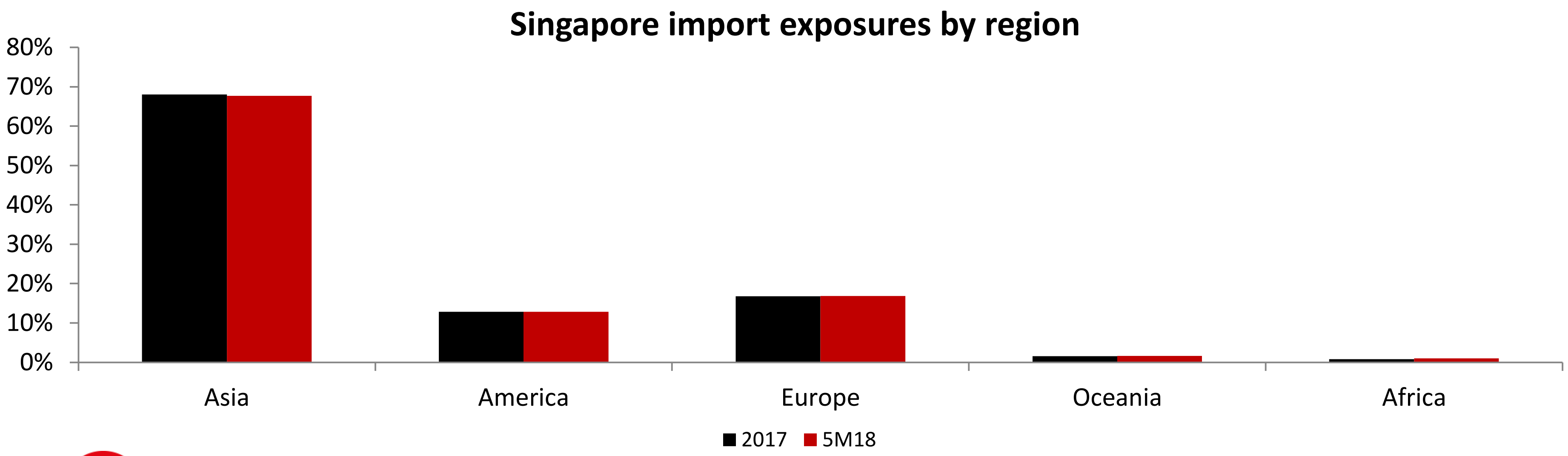
Source: Bloomberg, OCBC

Impact on individual ASEAN economies:

Asia accounts for over 70% of Singapore's trade





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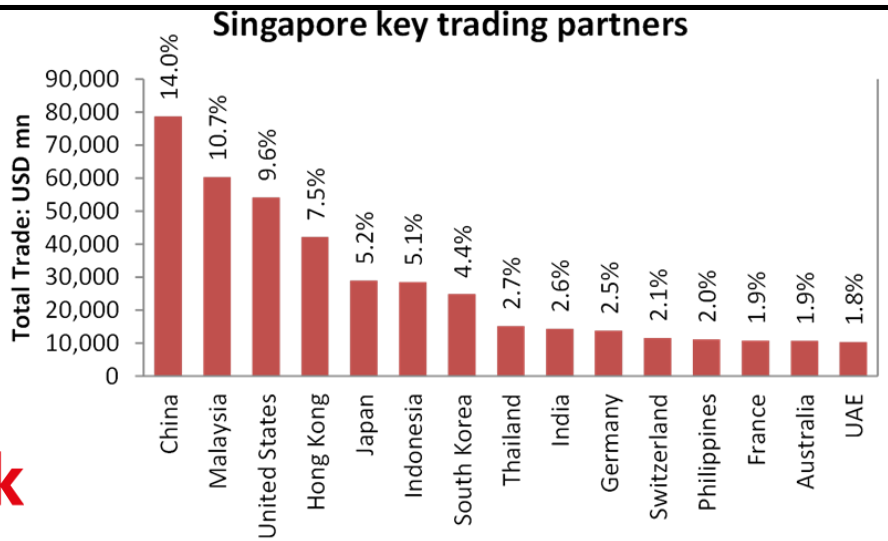
Source: Bloomberg, OCBC Bank

Potential impact on Singapore:

- Industries most likely affected include the electronics, chemicals, and maritime & shipping industry. For non-manufacturing sectors such as finance, increased market volatility may drive capital flows and flight to quality. While there may be some safe-haven flows, nevertheless, Singapore is not immune to the fund outflow story in EM and Asia in June.
- If overall regional and China-centric trade flows decline, the S'pore economy will likely take a hit due to its dependence on trade and manufacturing activities.

Exposure	China	USA
Export	14.5%	6.3%
Import	13.8%	10.5%



Source: CEIC, OCBC Bank

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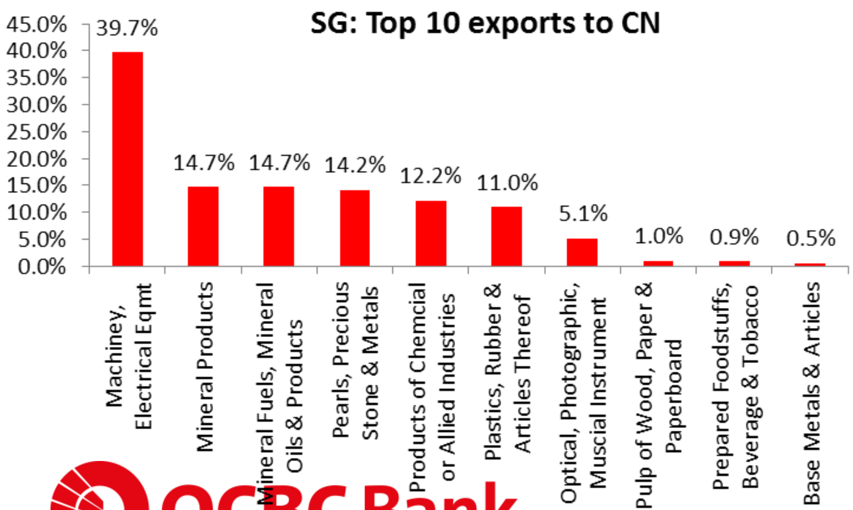
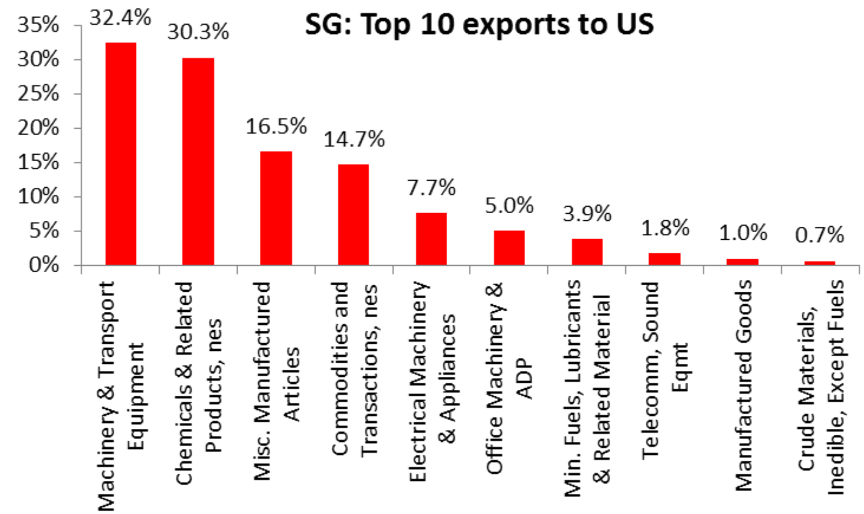
Impact on Singapore

Industry	Gain / Loss	Comment
Maritime & Shipping	Gain	• If manufacturing and trade picks up in Asia due to China shifting some production offshore, S'pore may benefit from the increase in maritime activity and shipping deliveries as a transport and logistics hub.
Electronics and related manufacturing	Loss	• There are certain products that are directly affected by the US tariffs: solar cells and modules, washing machines, steel and aluminium. Companies which export these products to the US will become less competitive compared with US manufacturers. However, these products account for a relatively modest 0.1% of SG's exports to the world, according to MTI minister Chan Chun Seng. • Furthermore, for companies that produce intermediate goods used in the production of China's exports to the US may see softer demand for such goods.





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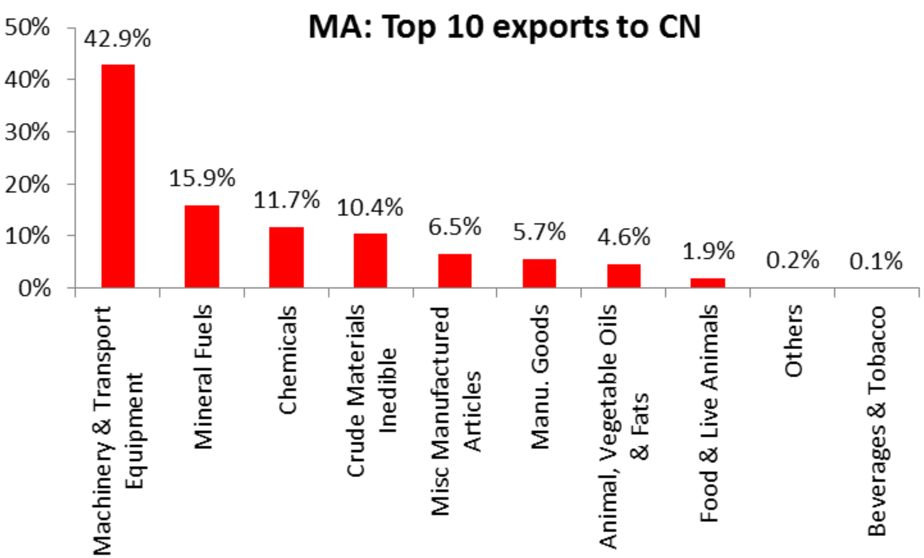
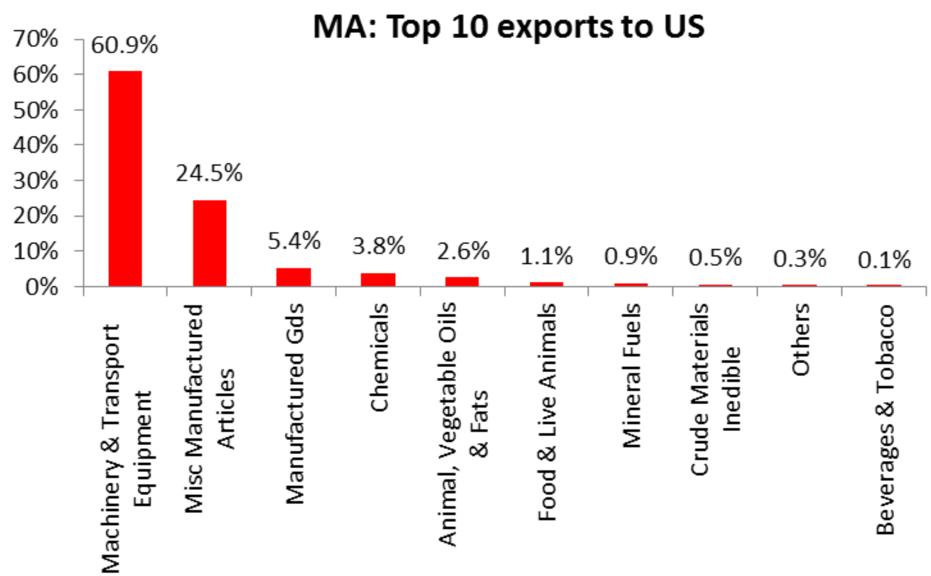
Source: CEIC, OCBC Bank
(%) refers to % of total trade with respective country

Impact on Malaysia

- Industries most likely affected include palm oil, solar panels, machinery, LED, and semiconductors.
- Overall, given Malaysia's trade openness, the tariffs are expected to increase the cost of raw materials and intermediate goods which could limit final demand.

Exposure	China	USA
Export	18.4%	12.7%
Import	18.4%	7.8%





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Source: CEIC, OCBC Bank

Impact on Malaysia

Industry	Gain / Loss	Comment
Palm oil	Gain	• Palm oil price & exports will get a boost if soybean tariffs go into place as a commodity substitute.
Chemical products	Gain	• Malaysia is considered to be one of China's main competitors in terms of key exports to the US, putting the country as another alternative to import chemical products from.
LED products	Gain	• Malaysia is one of the top 3 suppliers of LED, behind China. This makes Malaysia the next best option as US could divert its source to the country.
Solar panels	Loss	• The US implemented a 30% tariff on all imported solar panels – Malaysia accounts for 25% of total US solar panel imports.
Machine parts & components	Loss	• These components are used in the production of items that China sells to the US as final products.
Electronics	Loss	• The country's main exports are electrical and electronic products with China being one of its top trading partners.

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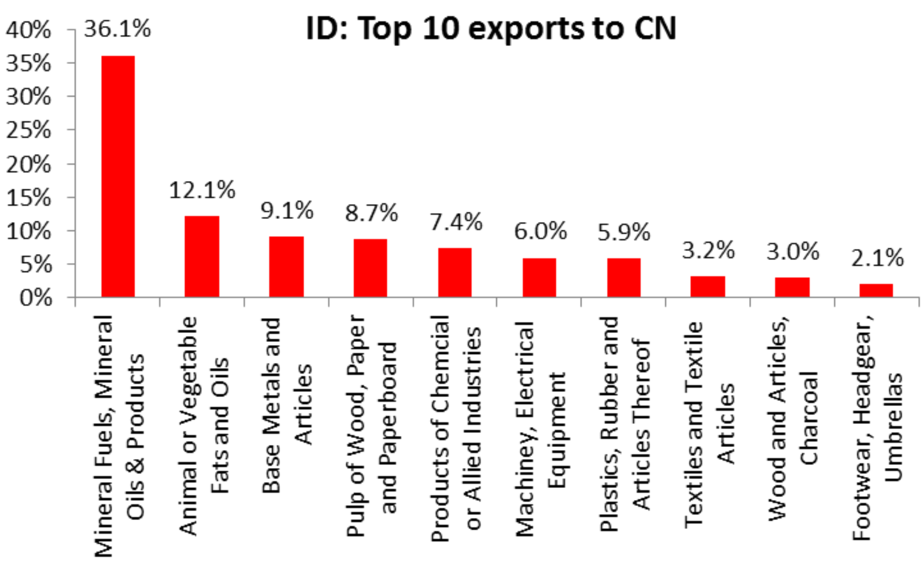
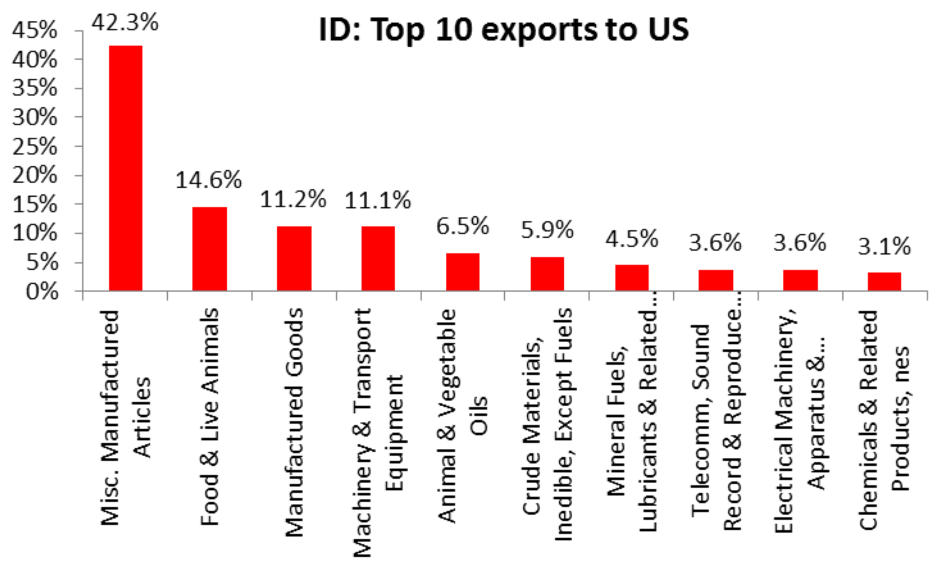
Impact on Indonesia

- Industries most likely affected include machinery, coal, rubber, palm oil, iron & steel.

Exposure	China	USA
Export	13.7%	10.5%
Import	22.8%	5.25





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Source: CEIC, OCBC Bank

Impact on Indonesia

Industry	Gain / Loss	Comment
Steel, aluminium, iron and steel	Mixed	• Indonesia does not export a significant amount of such products to the US. Thus, the imposition of direct tariffs to aluminium and steel exports by the US is unlikely to hurt Indonesian exports significantly. • However, base metals and articles is the 3rd top Indonesian export to China. Hence, the metal duties from US boosts the inclination for China to dump excess products to other trade partners that could harm the domestic industry. The US tariffs might hamper the local industry on the back of diverted steel exports from other manufacturing countries, especially that of China. • Concerns for Indonesian trades are more directed to China, since Indonesia's share of base metal exports to China is higher than that of to USA.

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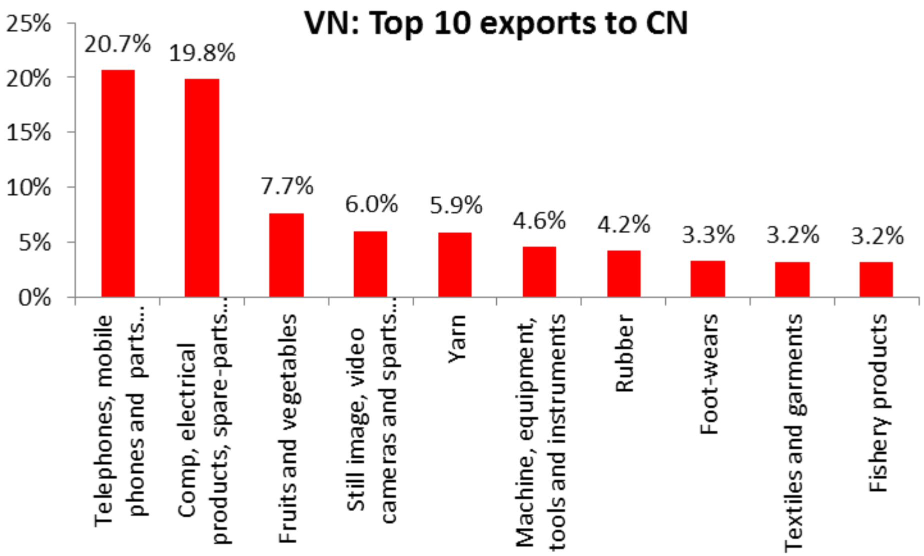
Impact on Vietnam

- Industries most likely affected include clothing, footwear, garments, electronic parts, wood, and steel.

Exposure	China	USA
Export	16.5%	19.3%
Import	27.5%	4.4%



Source: CEIC, OCBC Bank

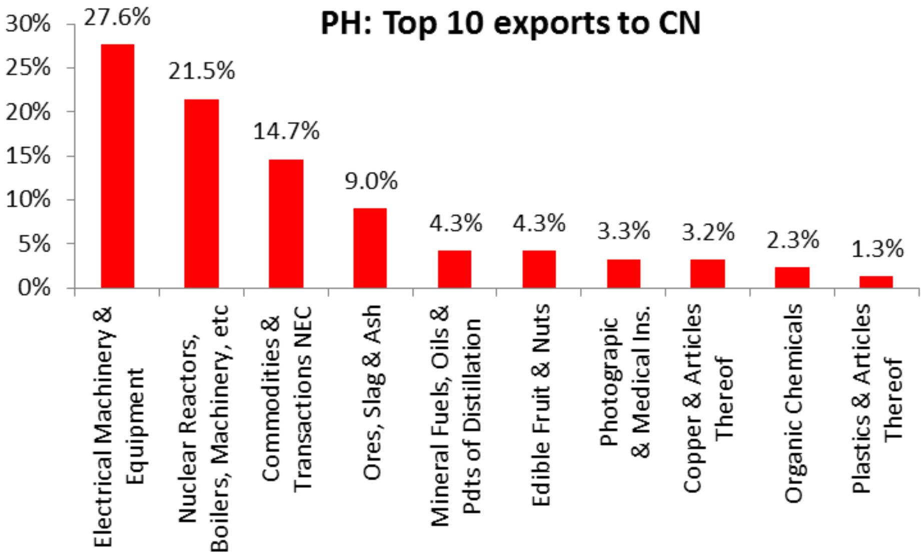
Impact on Vietnam

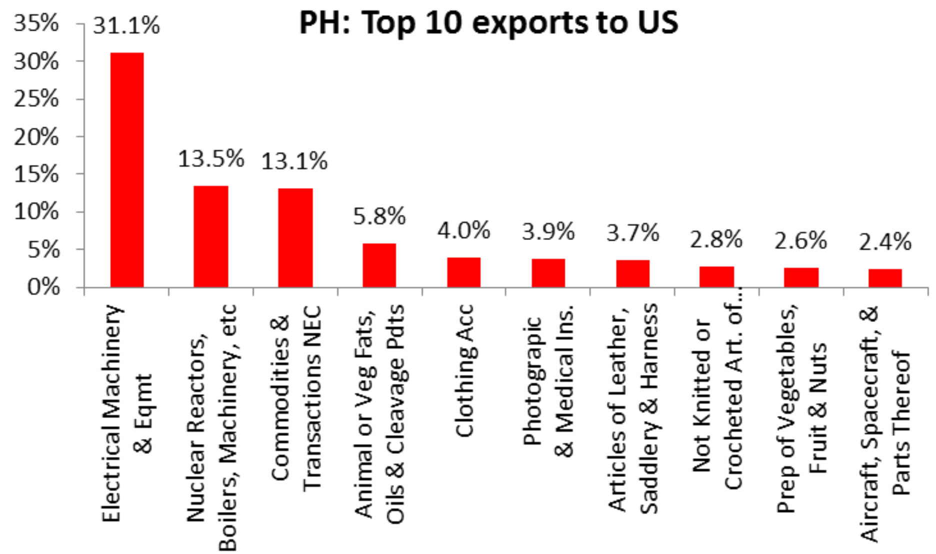
Industry	Gain / Loss	Comment
Textiles & garments	Gain	• There could be a possible boost in textiles and garments as demand shifts away from China towards its neighbouring countries
Consumer goods industry	Gain	• As part of the "China plus one" strategy, where there is an expansion to neighbouring countries to increase market access, diversify risks and reduce labour costs, there is a potential for China to look towards Vietnam's highly labour intensive consumer goods industry.
Machine parts & components	Loss	• These are used as intermediate goods partially assembled in China which is then sold to the US.
Steel	Loss	• Steel exports will be affected by tariffs as VN is the 12^{th} largest exporter of steel to the US.
Manufacturing	Mixed	• There could be a recalibration of trade flows given the implementation of the tariffs. This could bode well for Vietnam as it is a close neighbour to China. • However, there is mounting fear of dumping of Chinese products that could disrupt local industries and hurt manufactured good prices due to the flooding of these Chinese firms.

Impact on Philippines

- Industries most likely affected include steel, pork, electronics and processing.
- Despite the country's trade exposure to China and US being relatively high, given that a majority of the country's growth is fuelled by domestic consumption, it is therefore less susceptible to trade fluctuations as compared to the other ASEAN countries.

Exposure	China	USA
Export	10.4%	13.4%
Import	17.6%	7.8%





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Source: CEIC, OCBC Bank

Impact on Philippines

Industry	Gain / Loss	Comment
Pork	Gain	• There may be room for expansion of pork exports to the US given the implementation of pork tariffs on Chinese products.
Steel	Gain	• As Philippines is a steel importer, should US steel demand decline due additional tariffs and global steel supply is offloaded to other markets, they may benefit from lower costs.
Electronics	Loss	• US and China are big export destinations and import origins for electronics in the Philippines.
Finance	Loss	• Protectionist policies are not just limited to trade as there could be financial spillovers into dampening FDI and portfolio investments as well.

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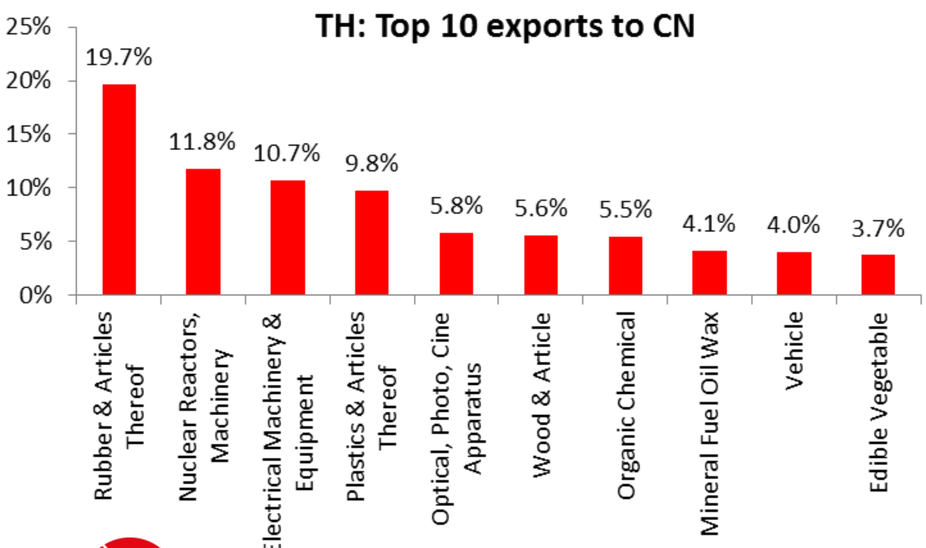
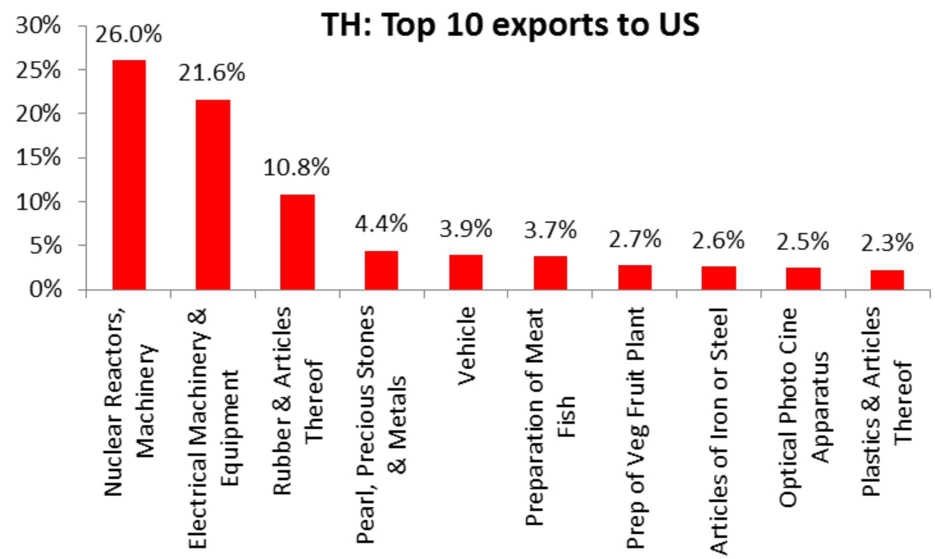
Impact on Thailand

- Industries most likely affected include the automotive industry as well as fresh and processed fruits.
- Thailand remains fairly insulated from the trade tensions given that a majority of its exports are primary.
- However, there could be a possibility of greater US scrutiny in the near future as the country's trade surplus with the US exceeded $20bn in 2017.

Exposure	China	USA
Export	12.5%	11.2%
Import	20.0%	6.7%





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Source: CEIC, OCBC Bank

Impact on Thailand

Industry	Gain / Loss	Comment
Fresh and processed fruits	Gain	• These exports to China are expected to receive a boost following the Chinese tariffs on US agricultural products that would maker US fruits more expensive.
Automotive industry	Gain	• Thailand is the largest automotive player in the ASEAN region, thus the country stands to gain from the US tariffs on the EU auto industry as companies are more likely to turn to Thailand for manufacturing plants. • Most recently, it was reported that Harley Davidson has shifted part of its processes to the country.
Tech products	Loss	• Intermediate goods that are part of the supply chain of final products assembled in China face downside risks from the US tariffs on intellectual property.

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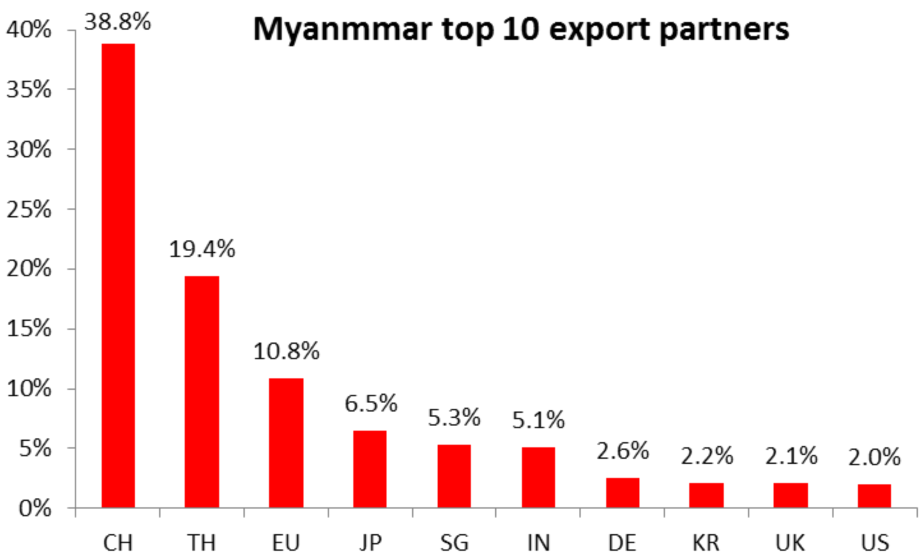
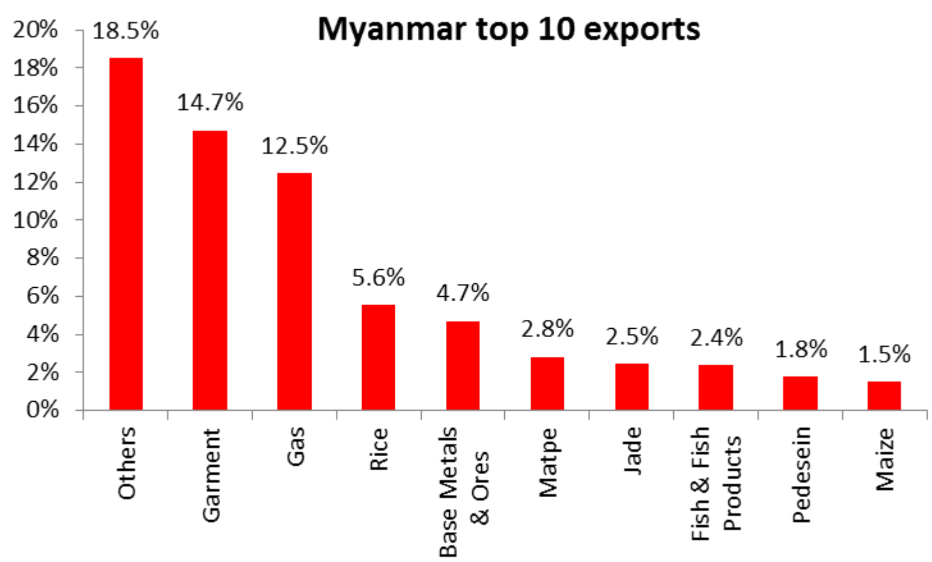
Impact on Myanmar

- Industries most likely affected include cattle, FDI, natural gas, wood and fish.

Exposure	China	USA
Export	29.9%	1.7%
Import	26.6%	3.4%





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Source: CEIC, OCBC Bank

Impact on Myanmar

Industry	Gain / Loss	Comment
Cattle	Gain	• Against a backdrop of the ongoing trade tensions, Chinese tariffs on US agricultural products as well as the steady increase in China's beef consumption, this gives Myanmar an opportunity. • Furthermore, China and Myanmar are finalising an agreement for the latter to export cattle to meet the rising Chinese demand.
Manufacturing	Gain	• There is increasing interest to set up manufacturing and production facilities in Myanmar among Chinese firms. • Chinese businesses are interested to set up base in the Thilawa Special Economic Zone.

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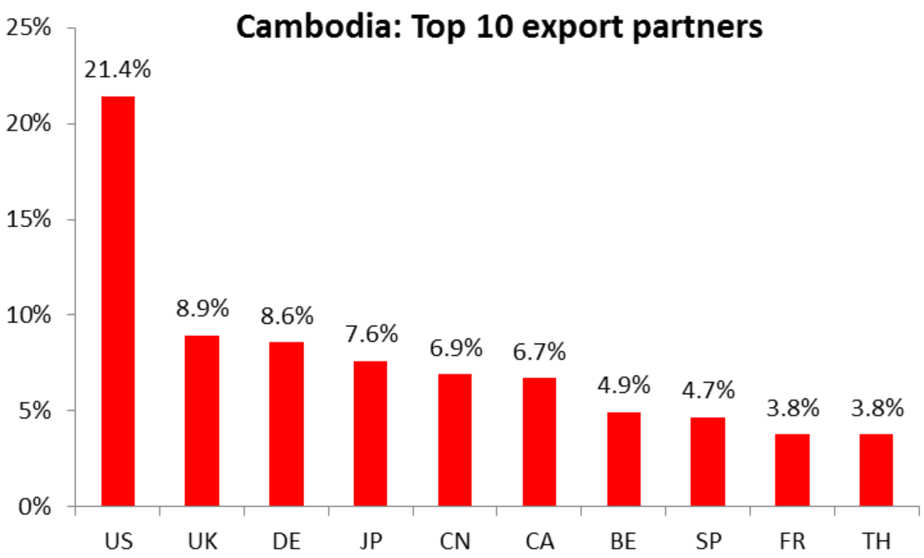
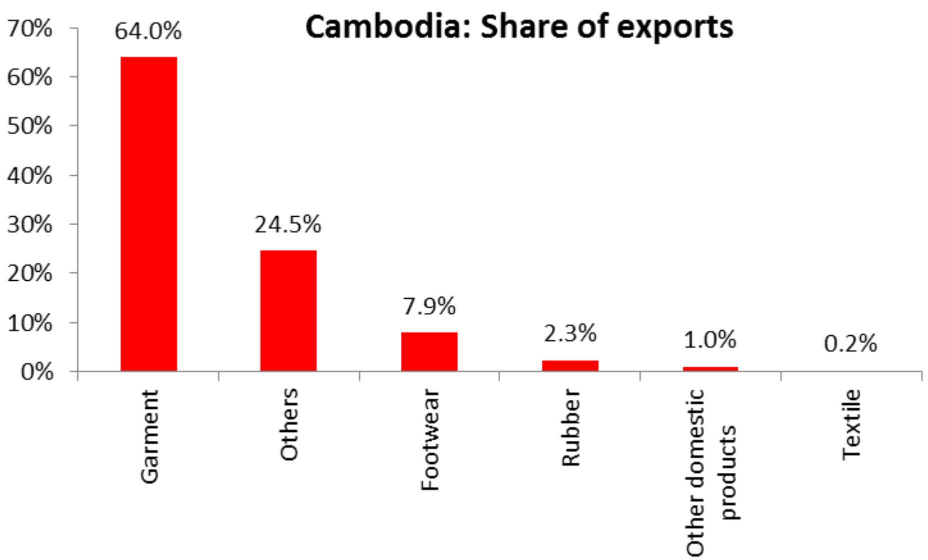
Impact on Cambodia

- Despite the US being the top export destination for most of Cambodia's exports, a large majority of these exports are mainly dominated by textile related and clothing products. Thus, the direct impact of the ongoing trade tensions remain relatively insignificant to Cambodia.

Exposure	China	USA
Export	6.9%	21.4%
Import	34.1%	1.2%





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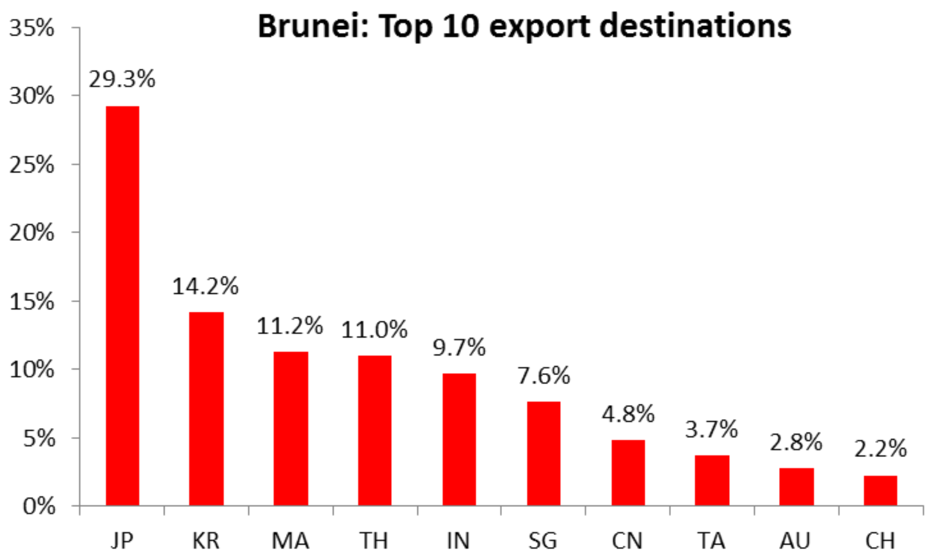
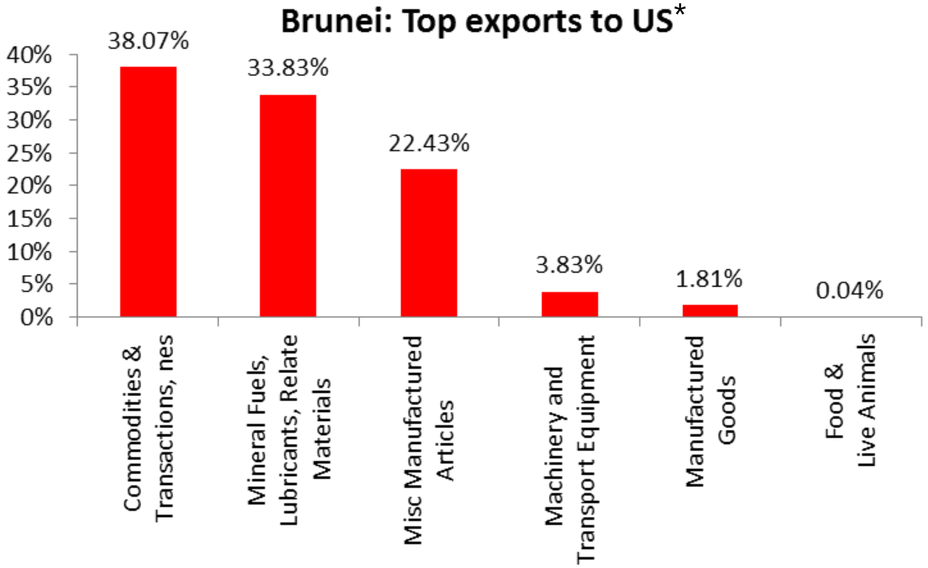
Source: CEIC, OCBC Bank

Impact on Brunei

- Brunei remains relatively insulated from the ongoing trade tensions given its relatively limited export exposure to both the USA as well as China.

Exposure	China	USA
Export	2.2%	0.4%
Import	20.8%	9.4%



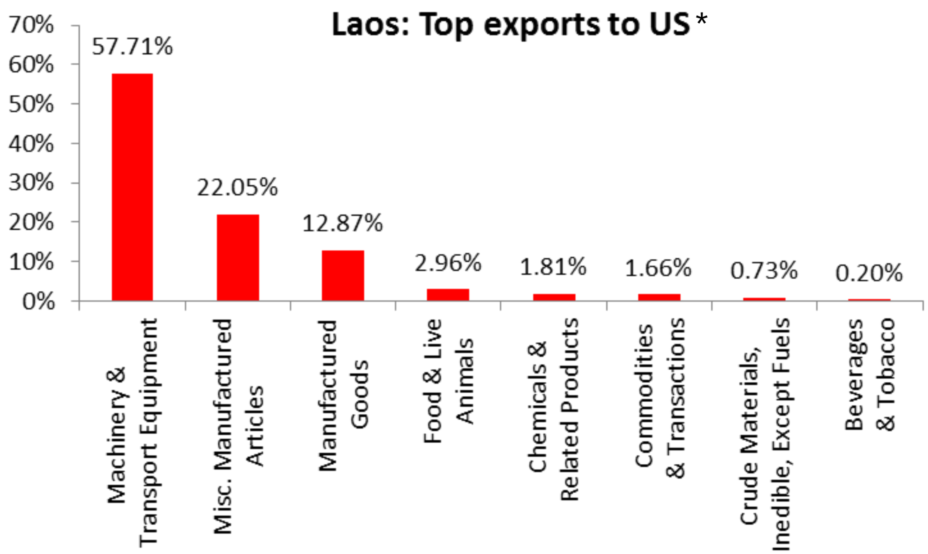


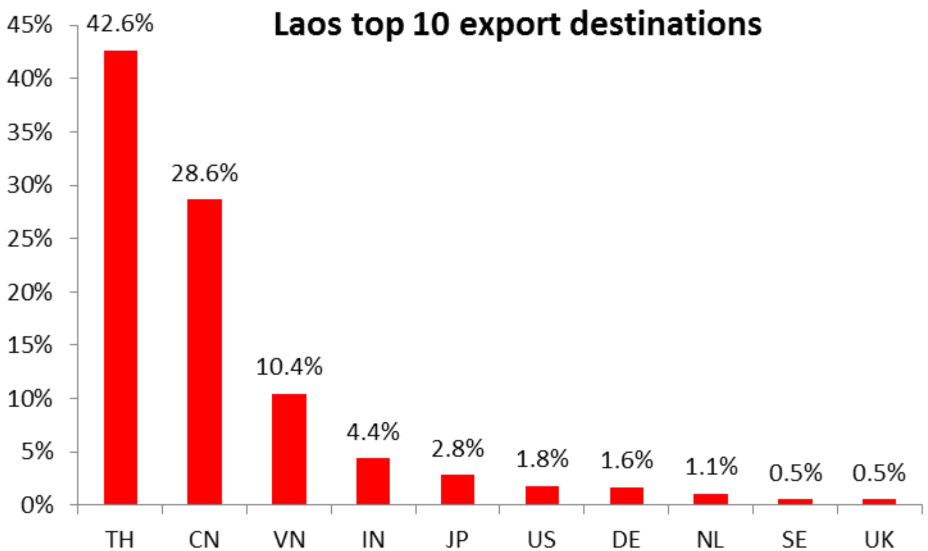
Source: CEIC, OCBC Bank
*Top exports to CN in 2017 unavailable

Impact on Laos

- The impact of trade tensions on Laos remains minimal even if China is one of Laos' top export destinations. However, given that a majority of Laos' top exports to the US are machinery & manufactured products, which could be intermediate goods, the imposition of US tariffs on Chinese electronics could bode well for these industries in Laos going forward.

Exposure	China	USA
Export	28.6%	1.8%
Import	21.5%	0.4%





OCBC Bank

Source: CEIC, OCBC Bank
*Top exports to CN in 2017 unavailable

Thank You