A View On Latest US's new tariffs

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- *Have US-China economic relations reached a point with no return?*
- *Short-Term Limited Impact of US Tariffs, Long-Term Risks Looming.*

Have US-China economic relations reached a point with no return?

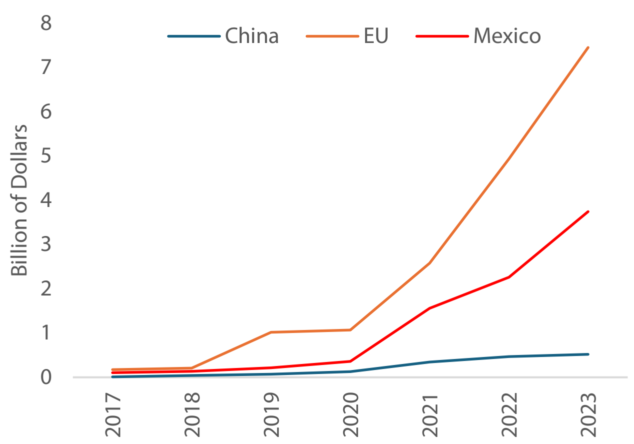
The trade war between the US and China, which began under former President Donald Trump, has escalated further under President Joe Biden's administration, with the US imposing additional tariffs on key Chinese products raising $18 billion worth of imports from China. In retaliation, China initiated an anti-dumping investigation into POM copolymers, a type of engineering plastic, imported from the European Union, the United States, Japan, and Taiwan creating further uncertainty on global trade and investment. Biden's move was largely accusing China of unfair trade by using non-market practices leading to an overcapacity surge and creating a fair ground for the domestic company as they could not compete against the scale of the China supply chain and its cheap import products.

The US has significantly increased tariffs on Chinese electric vehicle (EV) products, raising them from 25% to 100% in 2024, and has also doubled the tax on Chinese solar cells from 25% to 50%. This move comes as China is now the largest global manufacturer and seller of both products. However, these policy changes are unlikely to impact US-China trade significantly. Due to previous tariffs and anti-Chinese sentiment, the US imports very few of these products. Thus, the additional tariff hikes on clean tech goods are aimed further to limit China's entry into the US market.

However, the more concerning is the additional tariff on lithium-ion batteries, which will rise from 7.5% to 25%. This increase will have a more notable impact as the US heavily depends on the Chinese supply chains for batteries. In 2023, China had exported $13.54 billion worth of EV batteries to the US, far surpassing other countries' exports and also accounting for 20.8% of the total export value of China's lithium-ion batteries and 70 percent all US lithium-ion battery imports in 2023. Batteries not used for electric vehicles will also increase from 7.5% to 25%, which will occur in 2026, giving companies more time to seek alternative sources. Tariffs on permanent magnets and natural gas, critical products for the US as they are related to cleantech components, rise to 25% in 2026.

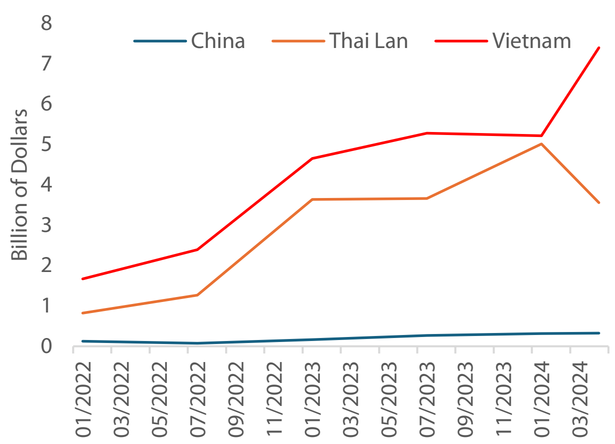
Furthermore, the US has been restricting certain imports of metals and technology from China for national security reasons. Tariffs on metals such as iron, steel, and aluminum from China will rise to 25% in 2024, up from 0%. Metals are vital for national security planning as they are essential for manufacturing military equipment. In 2023, China accounted for less than 1.8% of US iron and steel imports but represented a larger 9.4% of aluminum imports. Biden has also raised the tariff on semiconductors from 25% to 50% in 2025, building on the policy initially enacted under President Trump. This politically motivated move aims to prevent the Chinese military from acquiring sensitive technology.

Figure 1: US's EV imports from China



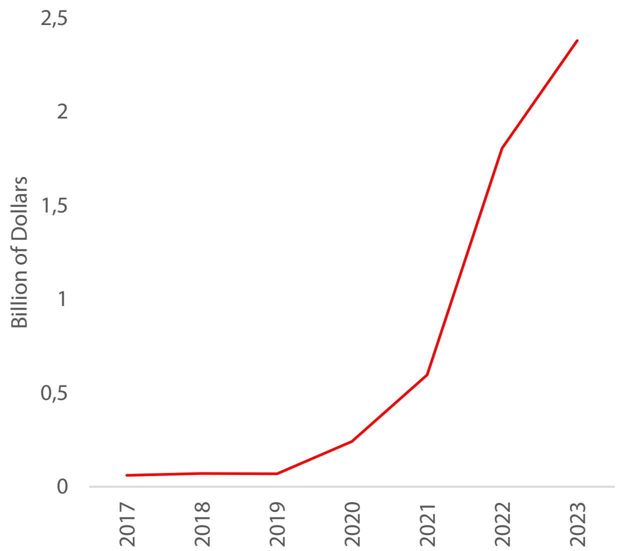
Source: US Census Data, RongViet Securities

Figure 2: US's solar panel imports from China



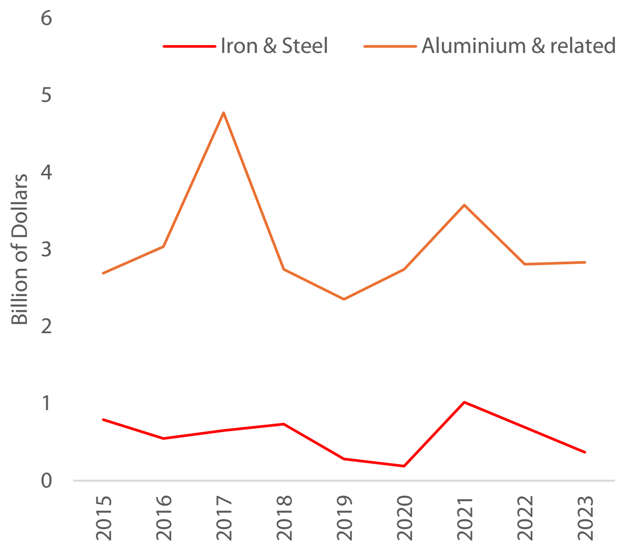
Source: US Census Data, RongViet Securities

Figure 3: US's EV Battery import from China



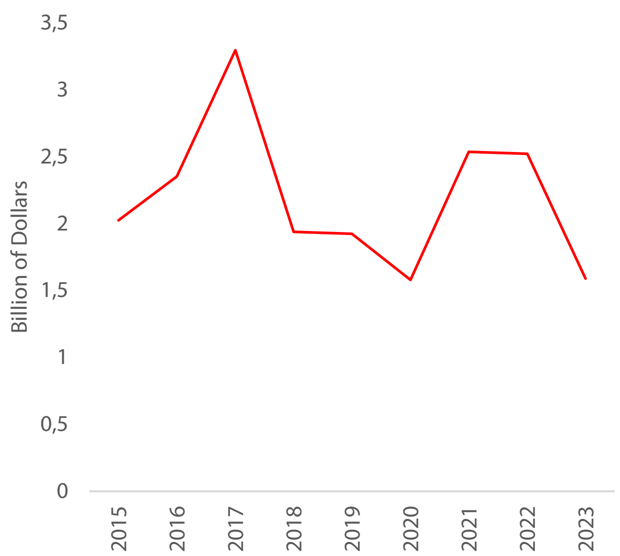
Source: US Census Data, RongViet Securities

Figure 4: US's Metals imports from China



Source: US Cencus Data, RongViet Securities

Figure 5: US's Semiconductor Imports from China



Source: US Census Data, RongViet Securities

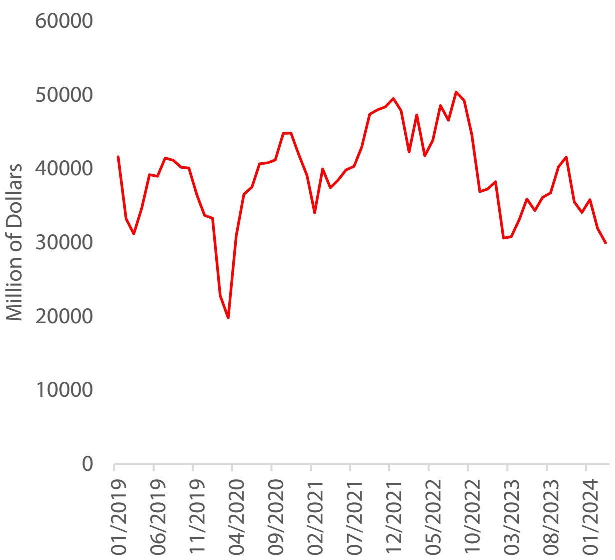
Short-Term Limited Impact of US Tariffs, Long-Term Risks Looming

In the short term, the impact of US tariffs on China is expected to be limited, as the additional tariffs are more symbolic and political than economic. With the upcoming election in November, both candidates, Donald Trump and Joe Biden, are showcasing their toughness toward the world's second-largest economy and their commitment to protecting domestic businesses and workers. Economically, the total value of products imported from China to the US was $427 billion in 2023, equivalent to 1.6% of the US GDP and 11% of total US imports. The imported products subject to US tariffs amounted to approximately $18.9 billion in 2023, representing only 0.07% of the GDP. This indicates that the additional tariffs will not significantly impact US imports. The impact on US consumer inflation should also be limited as recently, most of the drive to the rise in CPI is mainly driven by the high prices in service and rent. In addition, according to PIIE's estimates, tariffs on Chinese imports have only marginally contributed to US inflation, contributing 3.8%-5.1% to US CPI and PCE during Nov 2020-2021 . So, an extra 18 billion dollars will not affect the CPI.

Similar to the US, China's total value of exports to the US in 2023 was around $500 billion, which is 14.7% of China's total exports. The targeted products only account for 4% of its exports to the US and 0.5% of its total exports, so the tariff hike will have a limited economic impact on China. Despite the limited impact on both country's economies, the risks associated with the US-China trade war remain uncertain. They could continue, with tensions likely persisting as the election year approaches. According to the UOB, there are rumors from unconfirmed sources that China is looking to retaliate against the US in the trade war by imposing tariffs of 25% on imported US and EU cars with large engines, and a further trade war will negatively impact both countries' economies.

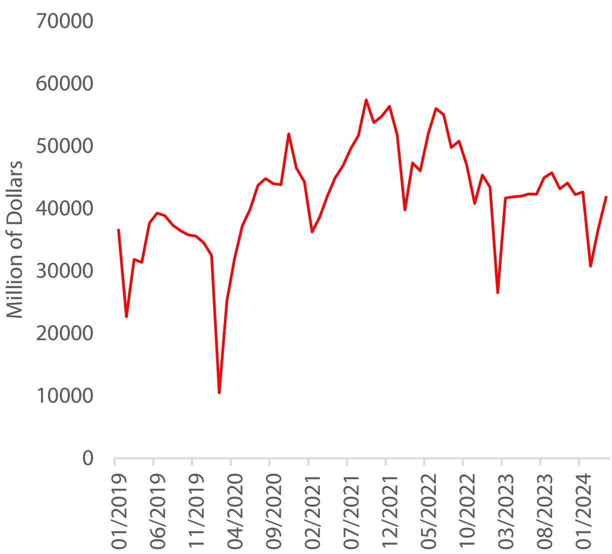
Furthermore, the impact of protectionist measures needs careful monitoring, particularly in the Euro Area. The EU imports over a third of China's semiconductors, electric vehicles, lithium batteries, and solar panels. Currently, the EU is scrutinizing a range of Chinese goods, such as steel, wood flooring, medical devices, wind turbines, and electric vehicles, due to fears of a China price shock, where China's low prices could harm local industries. This could potentially lead to increased tariffs in the near future The risk also extends to countries that use Chinese products to export to the US, as the US might impose additional taxes on these countries for incorporating Chinese components. President Biden announced the end of tariff waivers on solar panels made by Chinese companies in Malaysia, Cambodia, Thailand, and Vietnam. Additionally, former President Donald Trump has stated that if re-elected, he would increase tariffs on US imports from China by 60% and impose a 200% tariff on Chinese cars made in Mexico.

Figure 6: US total imports from China



Source: Bloomberg, RongViet Securities

Figure 7: China's total exports to the US



Source: Bloomberg, RongViet Securities

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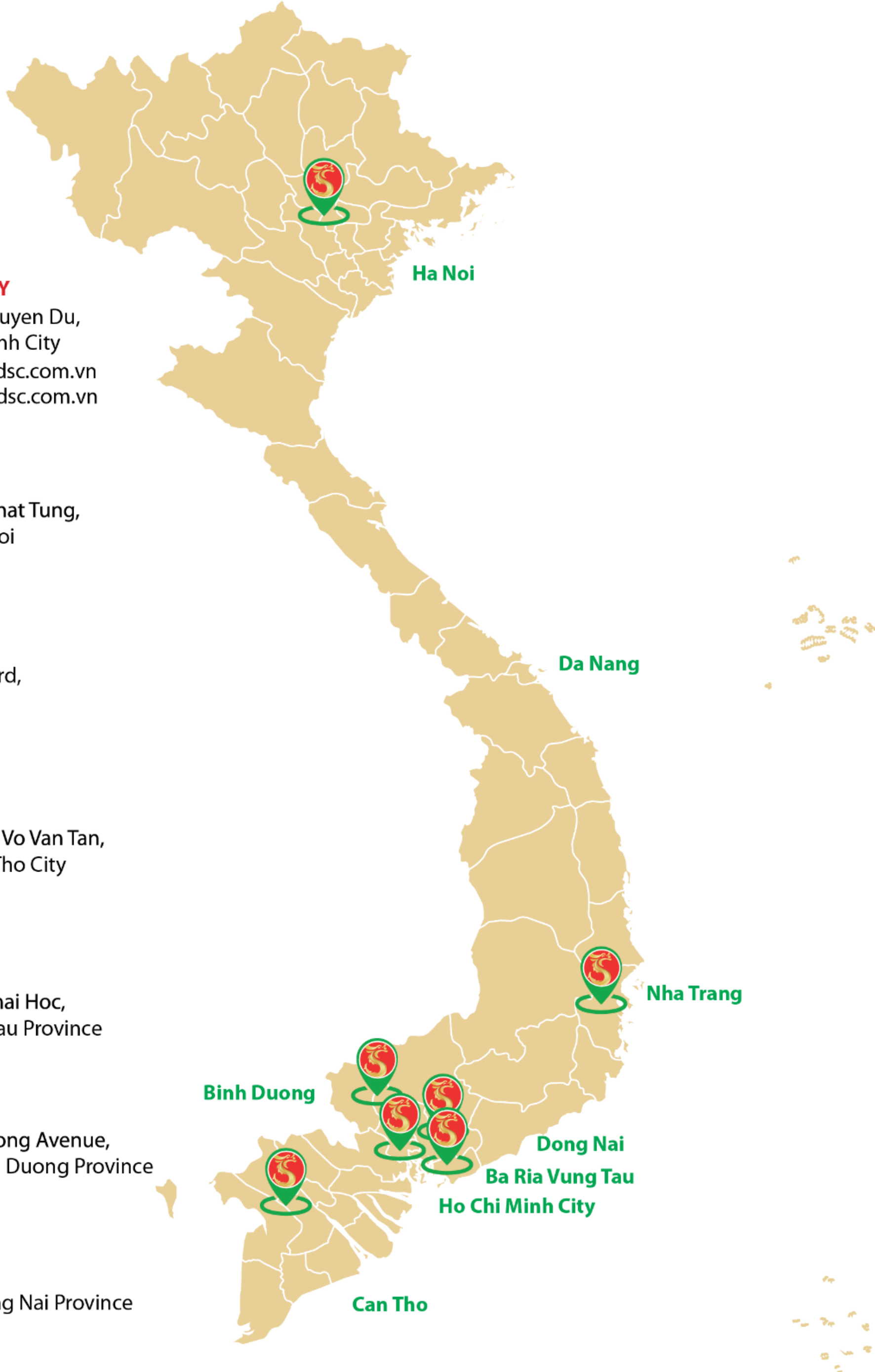

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