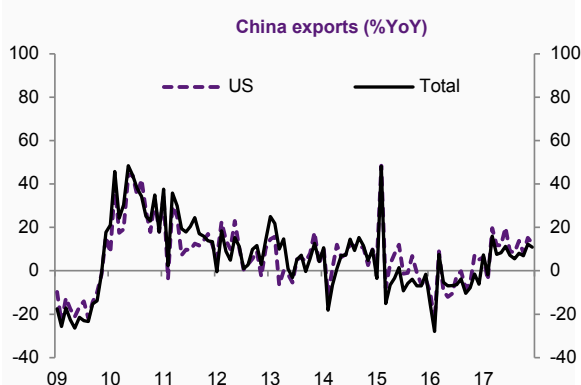
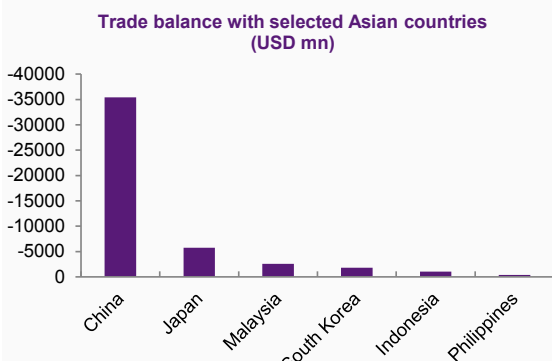


CHINA HOT TOPICS

23 January 2018



Source: China Customs, Datastream, Natixis



Source: US Census Bureau, Datastream, Natixis

TRUMP'S TRADE WAR KNOCKING AT 2018'S DOOR

As we expected (see our [Asia outlook](#)), the beginning of 2018 is on a much worse note in terms of geopolitical risk than 2017, especially in Asia. While North Korea's situation is clearly in a worrisome impasse, Trump seems to be moving much swiftly on tougher trade relations with China.

Today, President Trump has approved recommendations to provide relief to US manufacturers and impose safeguard tariffs on imported residential washing machines and solar panel cells and modules.

These measures should not come at a surprise as the US administration has officially opposes China's bid for the recognition as "market economy" in the World Trade Organization (WTO) right after Trump's visit to China. In the same line, in the recently published national security strategy, the US has described China as a "revisionist power" and "challenge American power, influence, and interests".

One could wonder why the announced tariffs focus on two key products only, namely solar panels and washing machines without targeting a specific producer on the usual anti-dumping rationale. The unbiased attitude with no targeted country, at least on paper, seems to suggest that the US is willing to defend domestic industries no matter where the source of threat may originate. Nevertheless, China is a natural target given its large market share for most exports and, certainly, white goods and solar panels. Furthermore, not only import tariffs can be challenged by the WTO, but also the anti-dumping measures unless better justified.

In fact, China is an important supplier especially in the case of solar panels. According to the Fact Sheet provided by the US Trade Representative Office, China now produces 60% of the world's solar cells and 71% of solar modules. This does not seem to be the case for washing machines since most of US imports come from Mexico, but the reality is that global white good producers, such as South Korea, are assembling in Mexico.

Admittedly, the sum of solar panels and washing machines only accounts for a small proportion of Chinese exports, but it is hard to argue that China – as well as other Asian manufacturing exporters – will not be harmed by these measures. One way out, at least on paper, would be for the WTO to respond to the US proposal. This was the case when the Bush Administration invoked the "safe guard" law in 2002 to protect steelmakers. Still, the threat of the US abandoning the WTO does not put the institution in a very comfortable position to address concerns from China or other Asian producers.

Beyond the potential extension of US tariffs to other import goods, a soft response – or silence from the WTO – could open the door to other major economies following the US in their quest for a "supposedly" fairer trade relation with China and other Asian countries. The most obvious one could be the European Union. It has recently toughened its wording on China trade relations in [a recently published report](#) on the distortion of Chinese market economy for trade defence investigations. After all, one should not forget that the European Commission brought up a case against China through the WTO on solar panels in 2013. In a recent move, India also planned to join the team to fight against China's solar cells and the US action could only be a catalyst.

In a nutshell, the challenges against Chinese as well as Asian exports have only started, with the beginning of the year. If the US action is acquiesced or even agreed, more hurdles are expected to come. All in all, we expect a difficult year ahead for Asia-US trade relations.



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