

U.S.-China Trade Friction Update

(Jan. 2019)

LEAD THE VALUE

January 2019

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Executive Summary

- The U.S. raised import tariffs against China, its largest trading partner, aiming to resolve its trade deficits while demanding China to comply with intellectual property protection. In response, China imposed the retaliatory tariffs on U.S. products (Chinese exports to U.S.<US\$505.6bn> vs. U.S. exports to China<US\$130.4bn>).
- At present, total US\$253bn worth of Chinese goods (50% of China's exports to U.S.) are subject to the U.S. tariff raise. The impact has gradually spread to Chinese companies exporting electronics goods (e.g. semiconductors, electronics components) in high trade value, furniture and auto parts to the U.S. If the smartphones and PCs currently excluded from the tariff list would be targeted next, the spillover effect will also reach Taiwanese EMS and U.S. electronics makers.
- Meanwhile, total US\$113bn worth of U.S. goods (90% of U.S. exports to China) are subject to Chinese retaliatory tariffs, which covers most of product categories except aircrafts. The impact is increasingly visible among U.S.-based companies and American farmers who export automobiles and soybeans in high volume to China. Meanwhile, following the U.S.-China bilateral talk held in December 2018, China increased U.S. soybean imports and temporarily halted additional tariffs on U.S. vehicles and auto parts.
- Under the situation, many companies are poised to continue the bilateral exports and imports by factoring in the potential cost increase, while some companies have taken measures to hedge against foreign exchange risks and reviewed their supply chains.
- Given that U.S.-China trade friction will likely prolong ahead, the impact will not only be felt in the economies such as deterioration in corporate profitability and slowdown in consumer spending, but it may also lead to a full-scale reshuffle of global supply chains around players with production bases and marketing network worldwide. It is important for corporate players in relevant industries to secure emergency funds for unexpected events; increase capital in case of financial deterioration; and take various risk-hedging measures. Meanwhile, besides the tariff raise, the U.S. moves of expanding its punitive measures such as trade sanctions against Chinese companies should also be carefully monitored.

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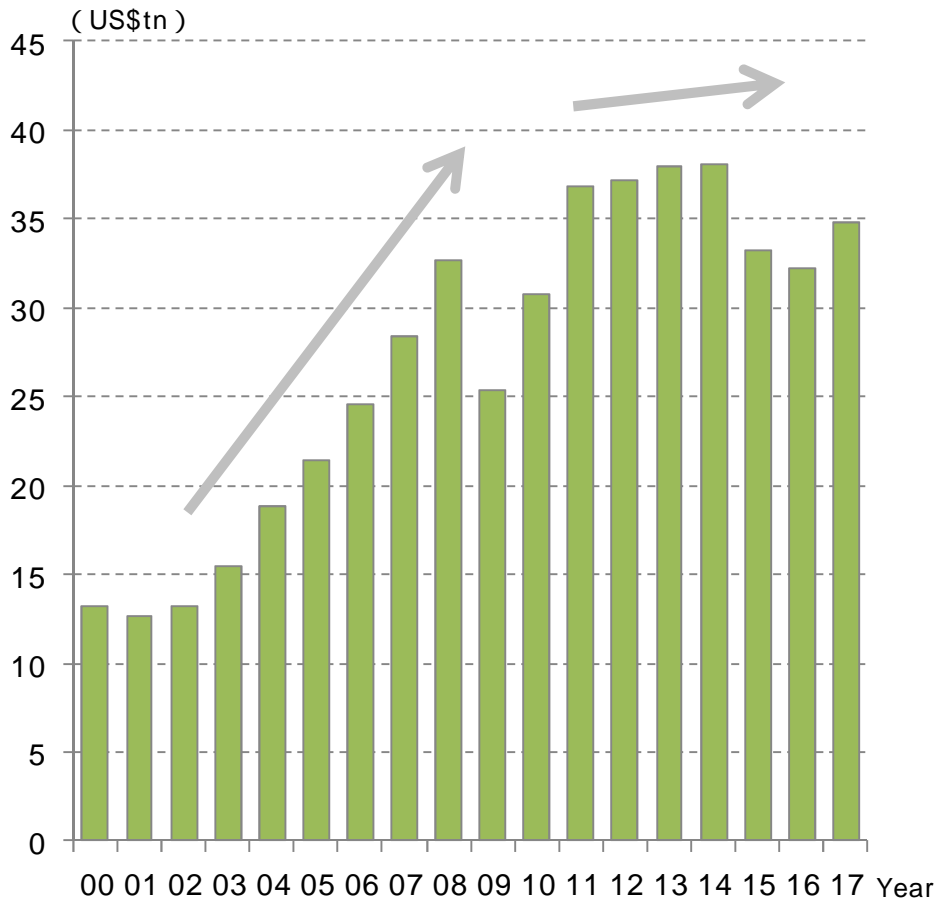
1. Background of U.S.-China Trade Friction

(1) Trades World Trade Value

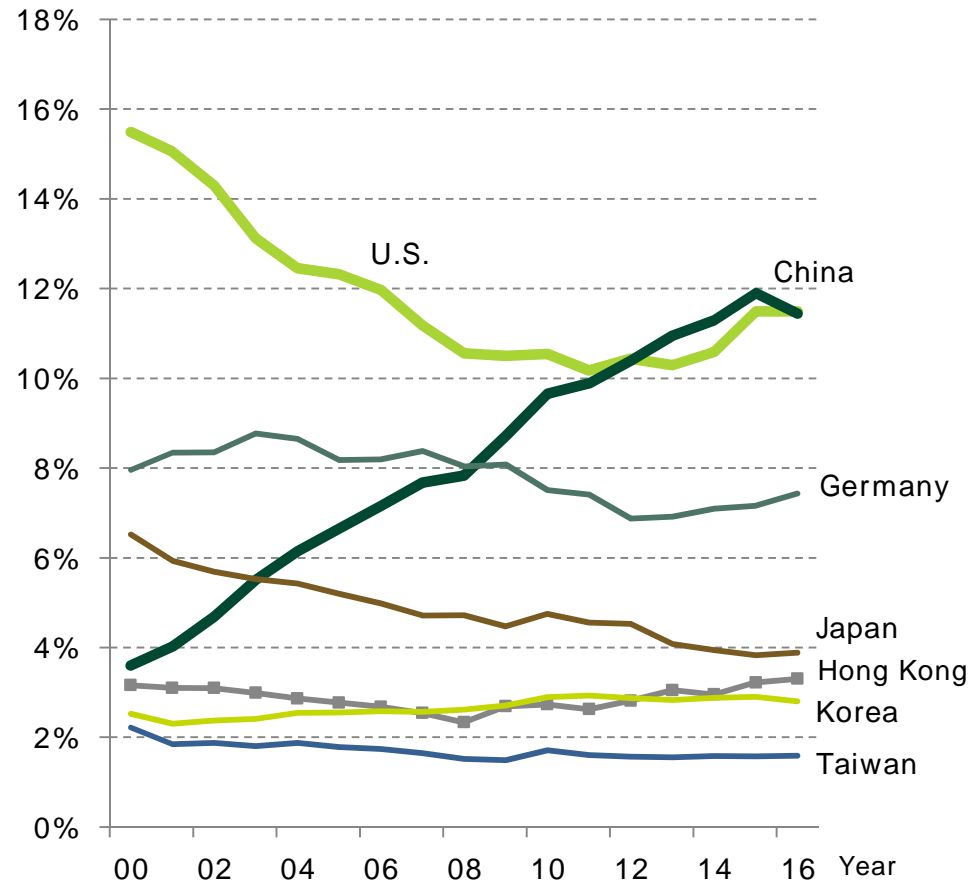
The growth in the value of world trade has recently slowed down, with periods of negative growth in 2015 and 2016.

China's contribution in the world trade has been increasing since 2001 when China became a member of the WTO.

Trend of World Trade



Share of World Trade Value by Country/Region



(Source) WTO

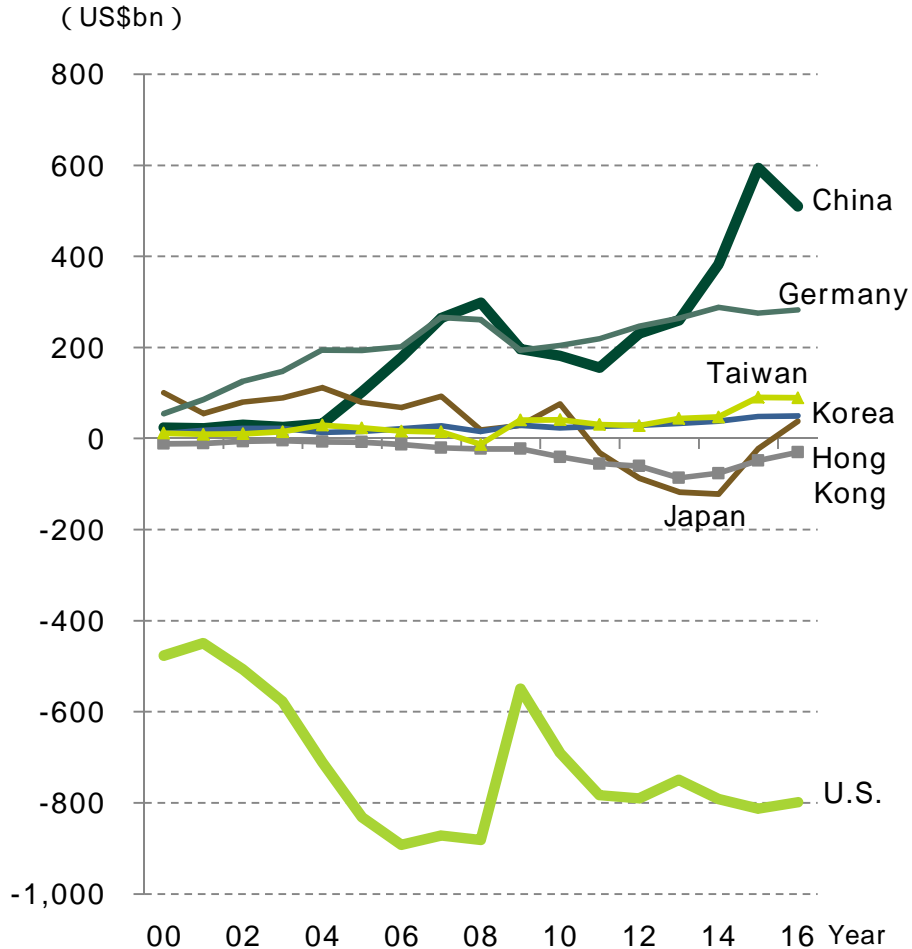
1. Background of U.S.-China Trade Friction

(1) Trades Trade Balance

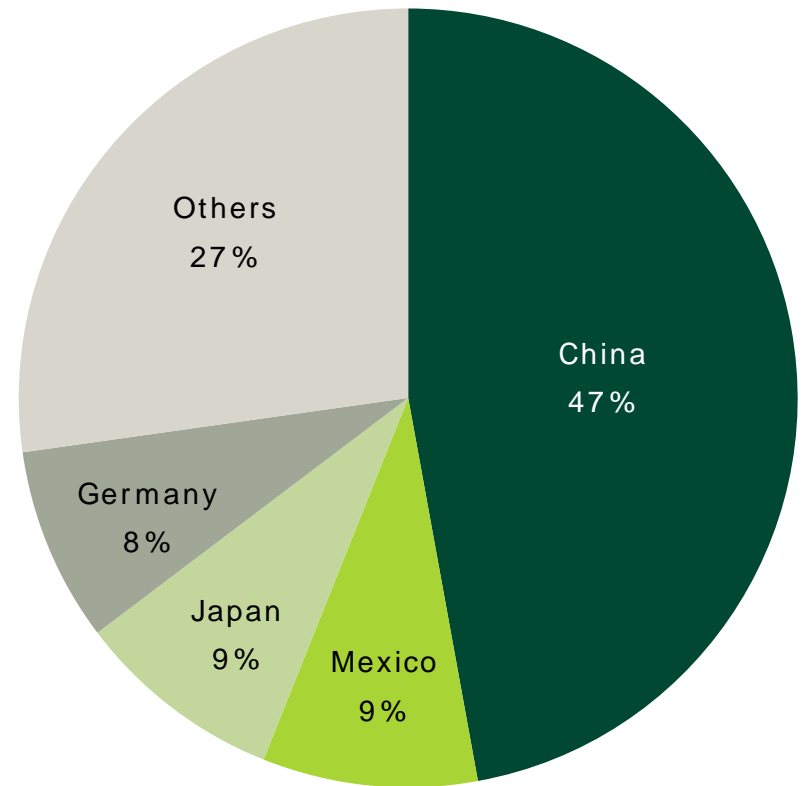
Looking at trade balance by country/region, the U.S. has the largest trade deficit, and China has the largest trade surplus in the world.

The U.S. has the largest trade deficit with China, followed by Mexico, Japan and Germany.

Trade Balance by Country/Region



U.S. Trade Deficits by Trading Partner (2016)



(Source) WTO

1. Background of U.S.-China Trade Friction

(2) China's Industrial Policy By Developmental Stage

China has implemented various industrial policies to enhance technology acquisition of Chinese makers and domestic sales channel expansion by inviting foreign capitals in the initial stage, and by restricting foreign capitals in the stage to capture domestic demand. It has provided large volume of low-interest funds and subsidies to local firms throughout the stages. Some point out its intellectual property protection lagging behind advanced nations enabled Chinese firms to gain technologies.

Industrial Policies Implemented by Developmental Stage indicates a stage in which the policies were implemented

Characteristics of Industrial Policy		Initial Stage (Introduce and develop technology)	Stage to Capture Domestic Demand (Compete with foreign firms in domestic market)	Stage to Capture External Demand (Ruled domestic market, shifting to abroad)	Stage to Join in Global Players (Act as a major player in global market)
Support Technology Acquisition	Invite foreign capital	Loosen control on foreign capitals Provide subsidy, lands, tax benefit, etc.			
	Support Chinese enterprises	Promote IP protection, as lagging behind advanced nations			
		Provide a large volume of low interest rate funds & subsidies			
		Acquire overseas enterprises Acquire overseas talents Promote R&D activities			
		Raise domestic educational level			
Support Sales Channel Expansion	Restrict foreign capital	Tighten foreign capital control Promote domestic product purchase, White List Raise import tariffs			
Support Cost Competitiveness Enhancement	Support Chinese enterprises	Provide a large volume of low interest rate funds & subsidies			
		Provide lands, tax benefit, etc.			
		Promote domestic industry consolidation			

1. Background of U.S.-China Trade Friction

(2) China's Industrial Policy China's Technology

China has improved manufacturing technologies by implementing various industrial policies. Looking at the number of published patents, China is currently ranked top above the U.S. in digital communication and telecommunication technologies.

China's Ranking in the Number of Published International Patents by Sector

Technology (Technologies in Key Sectors of "Made in China 2025")	China's Global Rank		Global Top (2017)	Technology (Technologies in Key Sectors of "Made in China 2025")	China's Global Rank		Global Top (2017)
	2007	2017	Country		2007	2017	Country
Digital communication	2	1	China	Organic fine chemistry	16	3	U.S.
Telecommunications	4	1	China	Materials, metallurgy	9	3	Japan
Audio-visual technology	7	1	China	Medical technology	16	3	U.S.
Control	11	2	Japan	Biotechnology	13	3	U.S.
Other consumer goods	8	2	U.S.	Handling (elevator, crane, robot)	15	4	Japan
Computer technology	8	2	U.S.	Transport	9	4	Japan
Furniture, games	6	2	U.S.	Other special machines	14	4	U.S.
Optics	8	2	Japan	Food chemistry	15	4	U.S.
Thermal processes & apparatus	6	2	Japan	Machine tools	9	4	Japan
IT methods for management	11	2	U.S.	Chemical engineering	10	4	U.S.
Civil engineering	12	2	U.S.	Textile & paper machines	9	4	Japan
Pharmaceuticals	12	2	U.S.	Mechanical elements	9	4	Japan
Environmental technology	8	3	Japan	Engines, pumps, turbines	7	4	Japan
Basic communication processes	10	3	U.S.	Surface technology, coating	12	4	Japan
Semiconductors	8	3	Japan	Macromolecular chemistry, polymers	12	4	Japan
Electrical machinery, energy	8	3	Japan	Basic materials chemistry	9	4	U.S.
Measuring Technology	12	3	U.S.	Micro-structural & nano-technology	21	4	U.S.
				Analysis of biological materials	18	4	U.S.

(Source) Prepared by SMBCCN based on data issued by World Intellectual Property Organization (WIPO): a department of United Nations to promote development of the international framework for intellectual property (IP).

1. Background of U.S.-China Trade Friction

(2) China's Industrial Policy Made in China 2025

Chinese government launched the industrial policy “Made in China 2025” aiming to sophisticate manufacturing industry to resolve its ongoing issues, and set “10 key sectors” to focus on (currently mainly dominated by U.S. firms). It also set “Next-gen AI Development Plan” to dramatically improve manufacturing process and quality of AI technology where China has competitive edge as the U.S.

Key Points in “Made in China 2025”

From “Manufacturing giant” to “Global Manufacturing Power”
= From “Quantity” to “Quality”

China's Manufacturing Sector Challenges

- Wage rise
- Higher environmental costs
- Low value-added products

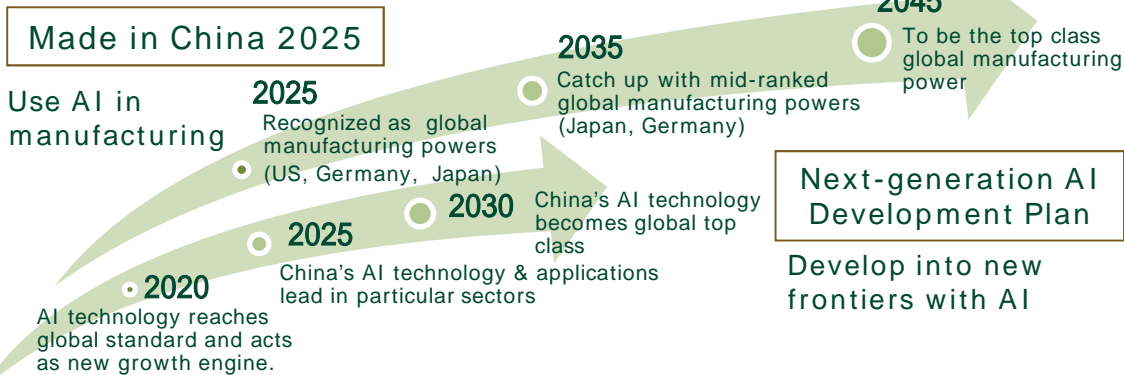
China's National Challenges

- Highly dependent on investments, excessive debts
- Income gap, immature social security
- Aging society, shrinking labour population

Sophistication of Manufacturing industry is inevitable:

- **Jump in key 10 sectors**
- **Improve innovation**
- **Enhance self-sufficiency of core components**

Roadmaps of “Made in China 2025” & “Next-Generation AI Development Plan”



Sector (<u>Underline</u> : Sectors involving national security)	Main Players (Note)				
	China	US	Europe	Japan	Others
<u>Numerical Control Machines & Robotics</u>					
<u>Aerospace & Aeronautical</u>					Canada, Brazil
<u>Agricultural Equipment</u>					(India)
<u>New Materials (carbon fiber, etc.)</u>					
<u>Maritime Equipment & High-tech Ships</u>					KR, SNG
<u>Biopharma & High-tech Medical Devices</u>					
<u>Next-Generation IT (ICs, telecom equipment)</u>					TW, SNG
<u>Power Equipment (nuclear reactor, etc.)</u>					KR
<u>Energy Saving & New Energy Vehicles</u>					
<u>Advanced Railway Equipment</u>					Canada

(Note) Country origin of top 5 firms in major product categories.

2. Current Situation of U.S.-China Trade Friction

(1) Trade Structure between U.S. and China

The graph below shows trades between U.S. and China by product category in 2017.

Trade Structure between U.S. and China (2017)



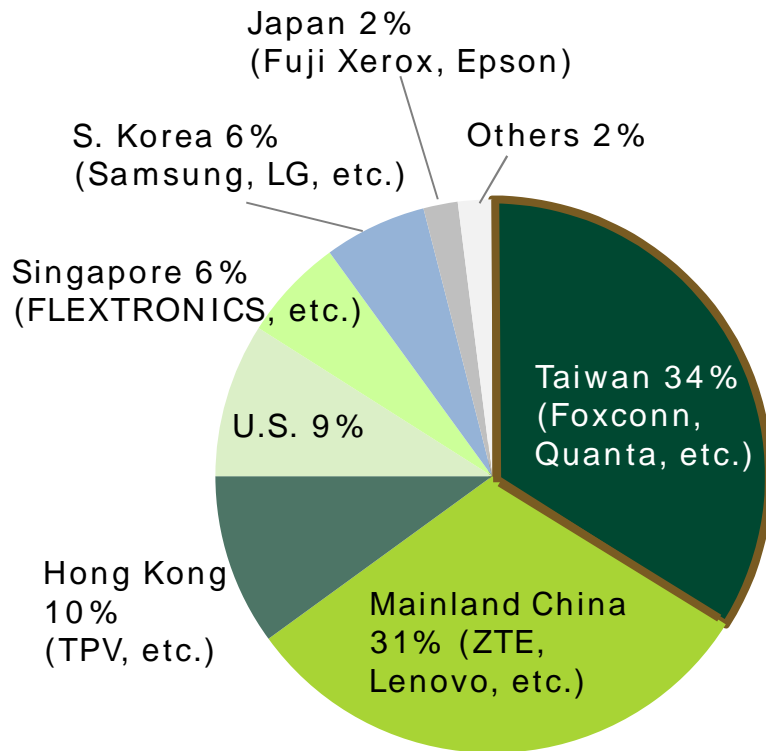
(Source) United States Census Bureau, National Bureau of Statistics of China

(Ref.) Shares of High-Ranking Exporters in China to U.S.

Looking at the breakdown of top 100 exporters in China to U.S. in terms of trade value, dominant players are from mainland China, Taiwan, Hong Kong and the U.S.

Looking at Taiwanese players, many are electronics makers producing smartphones and PC.

Country & Regional Origin of Top 100 Companies based in China by Export Value to U.S. (2016)



Taiwanese Players among Top 100 Exporters to U.S.

Company	Major Production Base	Core Product
Foxconn	Zhengzhou, Chengdu, Taiyuan, Yantai, Nanning, Chongqing, Tianjin, Wuhan, Shanghai, Shenzhen, etc.	Notebook PC, Smartphone
Quanta	Shanghai, Chongqing, Changshu, etc.	Notebook PC, Tablets
ASUS	Shanghai, Suzhou, Kunshan, Chongqing, etc.	Notebook PC, Smartphone
Compal Electronics	Kunshan, etc.	Notebook PC
Inventec	Chongqing, Shanghai	Notebook PC
Wistron	Kunshan, Zhongshan, Chongqing, etc.	Notebook PC
Qisda	Suzhou, etc.	Display panels
Amtran	Suzhou, etc.	Display panels
Sercom	Suzhou, etc.	Telecom equipment
LOTA	Xiamen, etc.	Bathroom products
Foxlink	Dongguan, etc.	Connectors

(Source) Customs-Info of China Customs Information Center

2. Current Situation of U.S.-China Trade Friction

(2) Timeline of Trade Negotiations (as of 09/18)

At present, U.S. has imposed tariffs on US\$253bn worth of Chinese goods (50% of imports from China), and China has imposed tariffs on US\$113bn worth of U.S. goods (90% of imports from U.S.).

U.S.		Tariff	China		Tariff
Mar 23	Tariffs on steel and aluminum (US\$3bn of Chinese goods)	+25%	Apr 2	Retaliatory tariffs (US\$3bn of U.S. goods)	+25%
Jul 6	1st round of punitive tariffs on Chinese goods, punishing intellectual property infringement (US\$34bn of Chinese goods)	+25%	Jul 6	Retaliatory tariffs (US\$34bn of U.S. goods)	+25%
Aug 23	2nd round of punitive tariffs on Chinese goods, punishing intellectual property infringement (US\$16bn of Chinese goods)	+25%	Aug 23	Retaliatory tariffs (US\$16bn of U.S. goods)	+25%
Sep 24	3rd round of punitive tariffs on Chinese goods, punishing intellectual property infringement (US\$200bn of Chinese goods)	+10% +25% (from 01/19)	Sep 24	Retaliatory tariffs (US\$60bn of U.S. goods)	+5% or +10% (depending on items)

(US\$bn)

China's total exports to U.S. (2017)	506
Exports under recent tariffs	253
as % of China's total exports to U.S.	50%

(US\$bn)

U.S. total exports to China (2017)	130
Exports under recent tariffs	113
as % of U.S. total exports to China	87%

(Source) Ministry of Commerce of the People's Republic of China, USTR, Wind, United States Census Bureau, White House

2. Current Situation of U.S.-China Trade Friction

(2) Timeline of Trade Negotiations (as of 12/18)

At the U.S-China trade talk held on Dec 1 2018, the leaders agreed to halt additional 25% tariffs on US\$200bn worth of imports scheduled in Jan 2019, and to start the bilateral talks on issues such as forced technology transfer, protection of intellectual property, non-tariff barriers, opening of service and agricultural sectors. However, if no deal is reached within 90-days, U.S. may raise tariffs to 25%.

Issues	Announcement & Comment after U.S.-China Trade Talk	
	U.S.	China
Additional tariffs worth US\$200bn (1/19, 10% 25%)	<u>Halt</u> additional tariffs	Agreed to <u>halt</u> additional tariffs
	Tariffs to be raised to 25%, if no deal is reached within 90 days.	No comment
Additional tariffs currently in effect	No comment	Agreed to hasten negotiations and reach agreement for mutual benefits, <u>aiming to remove all additional tariffs.</u>
Reduce U.S. trade deficits to China	China agreed to <u>expand imports from U.S. (e.g. agricultural products, energy)</u> . China agreed to immediately resume imports of U.S. agriculturals.	[Comment by Foreign Minister, Wang Yi] China will <u>expand imports from U.S. based on domestic demand.</u> (No comment on items & timing).
Key points in future negotiation	Agreed to resume bilateral talks on <u>forced technology transfer, intellectual property protection, non-tariff barriers, cyber attacks, opening of agricultural and service markets.</u>	China will further proceed with Reform & Open-door policy, while <u>solving trade issues concerned by U.S.</u> Meanwhile, U.S. will also take positive approach to <u>trade issues concerned by China.</u>
North Korea issue	Promised to cooperate with China to work toward denuclearization in the Korean peninsular.	China will support a realization of the U.S.-North Korea Summit.
Taiwan issue	No comment	U.S. government continues to support "One-China policy"
Merger of Qualcomm & NXP	China commented that it is "ready to reconsider" the merger of Qualcomm (US) & NXP (Netherland).	No comment
Regulation on Fentanyl	China agreed to ban Fentanyl use (opioid pain drug).	Enhance regulations on Fentanyl.

(Source) Ministry of Commerce of the People's Republic of China, USTR, Wind, United States Census Bureau, White House

2. Current Situation of U.S.-China Trade Friction

(3) Goods Subject to Tariffs

Chinese goods under U.S. tariffs include electronics, machinery, furniture and automobiles, while U.S. goods under China's tariffs include soybeans and automobiles. In many product areas, the percentage of the bilateral exports is limited within a single-digit of total export. However, for U.S. soybeans, 50% of exports goes to China, having a material impact on the supply chains. Goods in high trade volume, such as smartphones and PCs, are currently excluded from the list.

Chinese Goods Targeted by U.S. Tariffs (US\$bn)

	2017 Exports (China->U.S.)	Effective until Aug 2018	Effective in Sep 2018	Not yet effective
Total Exports	505.6	53.0	200.0	252.6
Tariff Raise		+25%	+10%	-
Electronics	147.0	17.5	48.4	81.1
Telecom equipment	71.9	0.0	23.8 (Router)	48.1 (Smartphone)
TV, monitor	11.5	0.0	0.1	11.4
Others	63.6	17.5 (Semiconductor)	24.5 (Electronic component)	21.6
Machinery	109.6	17.0	37.7	54.9
PCs	50.5	1.5 (PC component)	7.9 (PC component)	41.1 (PC)
Others	59.1	15.5 (Pump)	29.8 (White goods)	13.8 (Printer)
Furniture	31.9	0.0	29.2	2.7
Automobiles	14.6	2.2	11.6	0.8
Finished cars	3.3	1.8	1.3	0.2
Others (parts)	11.3	0.4	10.3	0.6
Steel products	12.2	1.0	7.7	3.5
Plastic products	16.3	2.1	5.6	8.6
Others	174.0	13.2	59.8	101.0

U.S. Goods Targeted by China's Tariffs (US\$bn)

	2017 Exports (U.S.->China)	Effective until Aug 2018	Effective in Sep 2018	Not yet effective
Total Exports	130.4	53.0	60.0	17.4
Tariff Raise		+25%	+5% or +10%	-
Soybeans	12.4	12.4	0.0	0.0
Automobiles	13.2	11.3	0.0	1.9
Finished cars	10.9	10.7	0.0	0.2
Others (parts)	2.3	0.6	0.0	1.7
Machinery	12.9	0.0	9.7	3.2
Precision, Medical	8.8	1.7	7.1	0.0
Electronics	12.1	0.0	6.8	5.3
Mineral fuel	8.6	3.7	0.0	4.9
Others	62.4	23.9	36.4	2.1

(Source) United States Census Bureau, National Bureau of Statistics of China

(Ref.) Tariffs in Effect Electronics & Machinery

The list of goods subject to U.S. tariffs includes PC components, semiconductors (e.g. LED element, memory), telecommunication devices (e.g. router) and other machinery (e.g. pump).

If additional tariffs are imposed on smartphones and PCs currently excluded from the list, the spillover effect will reach Taiwanese EMS and their customers who are global smartphone and PC makers such as Apple, HP and Dell.

Chinese Goods Targeted by U.S. Tariffs (US\$bn)

Items	Export 2017 (China US)	Tariff in Effect (Major Items)		
		Until Aug 2018	From Sep 2018	Not yet effective
Electronics	147.0	17.5	48.4	81.1
Telecom equipment	71.9	0.0	23.8 (Router)	48.1 (Smartphone)
TV, monitor	11.5	0.0	0.1	11.4
Others	63.6	17.5 (Semiconductor)	24.5 (Electronic component)	21.6
Machinery	109.6	17.0	37.7	54.9
PCs	50.5	1.5 (PC component)	7.9 (PC component)	41.1 (PCs)
Others	59.1	15.5 (Pump)	29.8 (White goods)	13.8 (Printer)

Ranking of Electronics & Machinery Exporters in China by Export Value to U.S.

Company *	Country/ Region	Core Product
Foxconn	Taiwan	Notebook PC, Smartphone
Quanta	Taiwan	Notebook PC, Tablets
Pegatron	Taiwan	Notebook PC, Smartphone
ASUS	Taiwan	Notebook PC, Tablets
Compal Electronics	Taiwan	Notebook PC
Flextronics Manufacturing	Singapore	PCB
Dell	U.S.	Notebook PC
Inventec	Taiwan	Notebook PC
LG, Inspur, etc.	China-Korea	Smartphone
Wistron	Taiwan	Notebook PC
TTI	Hong Kong	Machine Tools
ZTE	China	Smartphone
Micron	U.S.	Semiconductor
Intel	U.S.	Semiconductor

* Among "Top 100 Exporters to U.S." on P10, high-ranked electronics and machinery exporters are listed above. For foreign players, their parent company names appear on the list.

(Source) United States Census Bureau, Wind

(Ref.) Tariffs in Effect Automotive

US\$14.6bn worth of Chinese exports to U.S. comprises primarily auto parts vs. a smaller portion of finished cars. Many of the auto products are already subject to U.S. tariffs. Meanwhile, US\$13.2bn U.S. exports to China are mainly finished cars, and many of them are already under China's tariffs.

China announced in Dec 2018 to suspend additional tariffs on U.S. vehicles and auto parts for 3 months from Jan 1, 2019.

Chinese Goods Targeted by U.S. Tariffs (US\$bn)

Items	Export 2017 (China US)	Tariff in Effect (Major Items)		
		Until Aug 2018	From Sep 2018	Not yet effective
Automobiles	14.6	2.2	11.6	0.8
Finished car	3.3	1.8 (Passenger cars)	1.3	0.2
Others (auto parts)	11.3	0.4	10.3 (Aluminum wheel)	0.6

Ranking of Automotive Exporters in China by Export Value to U.S.

Parent Company	Country/Region	Core Product
GM·SAIC	China-US	Automobiles
CITIC Dicastal	China	Auto parts
PROSPEROUS INTERNATIONAL	Singapore	Auto parts

* Among "Top 100 Exporters to U.S." on P10, automobile and auto parts exporters are listed above.

U.S. Goods Targeted by Chinese Tariffs (US\$bn)

Items	Export 2017 (US China)	Tariff in Effect (Major Items)		
		Until Aug 2018	From Sep 2018	Not yet effective
Automobiles	13.2	11.3	0	1.9
Finished car	10.9	10.7 (Passenger cars)	0	0.2
Others (auto parts)	2.3	0.6	0	1.7

Major Automakers Importing from U.S. to China

BMW (Germany)
Daimler (Germany)
Ford (U.S.)
Fiat/Chrysler (Italy)
Tesla (U.S.)

(Source) United States Census Bureau, FOURIN

(Ref.) Tariffs in Effect Furniture

The majority of Chinese furniture makers are medium to small-sized OEMs. 30% of Chinese furniture exports goes to U.S. Looking ahead, U.S. tariffs will likely have an impact on the economy and employment of the South China region including Guangdong, where 70% of furniture production and 50% of furniture exporters are concentrated.

Chinese Goods Targeted by U.S. Tariffs (US\$bn)

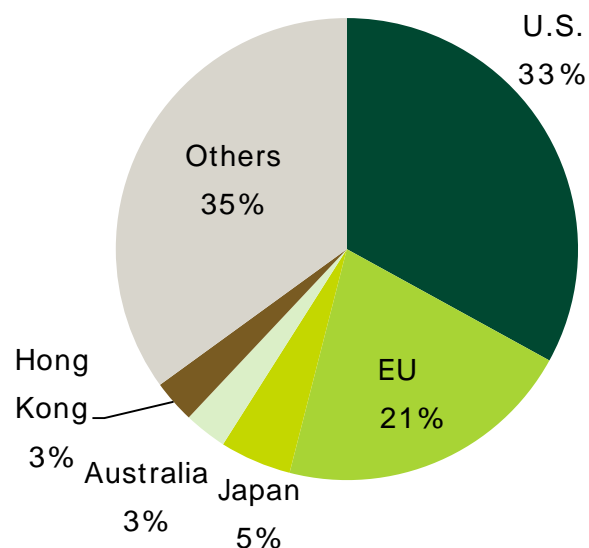
Items	Export 2017 (China US)	Tariff in Effect (Major Items)		
		Until Aug 2018	From Sep 2018	Not yet effective
Furniture	31.9	0.0	29.2 (Chair, lighting)	2.7

Ranking of Furniture Exporters in China by Export Value to U.S.

Rank	Company	Country/Region
74	Yihua Group	China
94	Man Wah	Hong Kong

*Among "Top 100 Exporters to U.S." on P10, furniture makers are listed above.

Main Destination of Chinese Furniture Exports (2017)



Major Listed Chinese Furniture Makers

(RMBbn)		
Company	Headquarter Location	2017 Revenue
Oppein Home Group	Guangdong	9.7
Yihua Lifestyle Tech	Guangdong	8.0
Jason Furniture	Zhejiang	6.7
Suofeiya Home Collection	Guangdong	6.2
Shangpin Home	Guangdong	5.3
Yotrio Group	Zhejiang	4.5
Markor International Furniture	Xinjiang	4.2

Besides above furniture makers, there are many small and medium-sized furniture makers in China.

(Source) United States Census Bureau, Wind, General Administration of Customs, P.R.C

(Ref.) Tariffs in Effect Soybeans

China is the world largest soybean importer, and U.S. is the 2nd largest soybean exporter. 50% of U.S. soybean exports goes to China, and currently the entire portion is subject to China's tariffs.

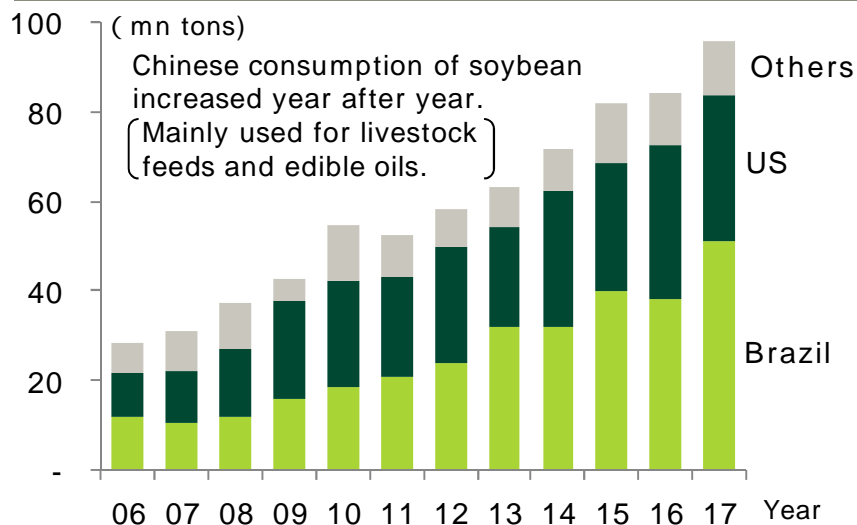
Without finding any substitute for U.S. soybean exports, China will likely continue to purchase from U.S., potentially affecting its soybean traders and consumers. For the mid-to-long term, global trade flow of soybeans may shift to Brazil & Russia. After the U.S.-China trade talk on Dec 1, 2018, China increased soybean imports from U.S. substantially, thus future development should be monitored.

U.S. Goods Targeted by Chinese Tariffs (US\$bn)

Items	Export 2017 (US China)	Tariff in Effect (Major Items)		
		Until Aug 2018	From Sep 2018	Not yet effective
Soybeans	12.4	12.4	0.0	0.0

(米国の大豆生産者は、トランプ大統領の「票田」とされる米国中西部の農家が主体)

China's Soybean Import Volume & Origins



Global Soybean Trade

(1) Major Exporters

Country	Volume	Share
Brazil	71	47%
U.S.	56	37%
Argentina	7	5%

(50% for China in value base)



(2) Major Importers

Country	Volume	Share
China	96	64%
EU	14	9%
Mexico	4	3%

China's dependency on soybean imports (Net imports ÷ Consumption) : 87%

Harvest season for soybeans is Sep-Oct in U.S. (as in northern hemisphere) and Apr-May in South America. If China increases soybean imports from South America, it needs to add transportation capacity including port and warehouse.

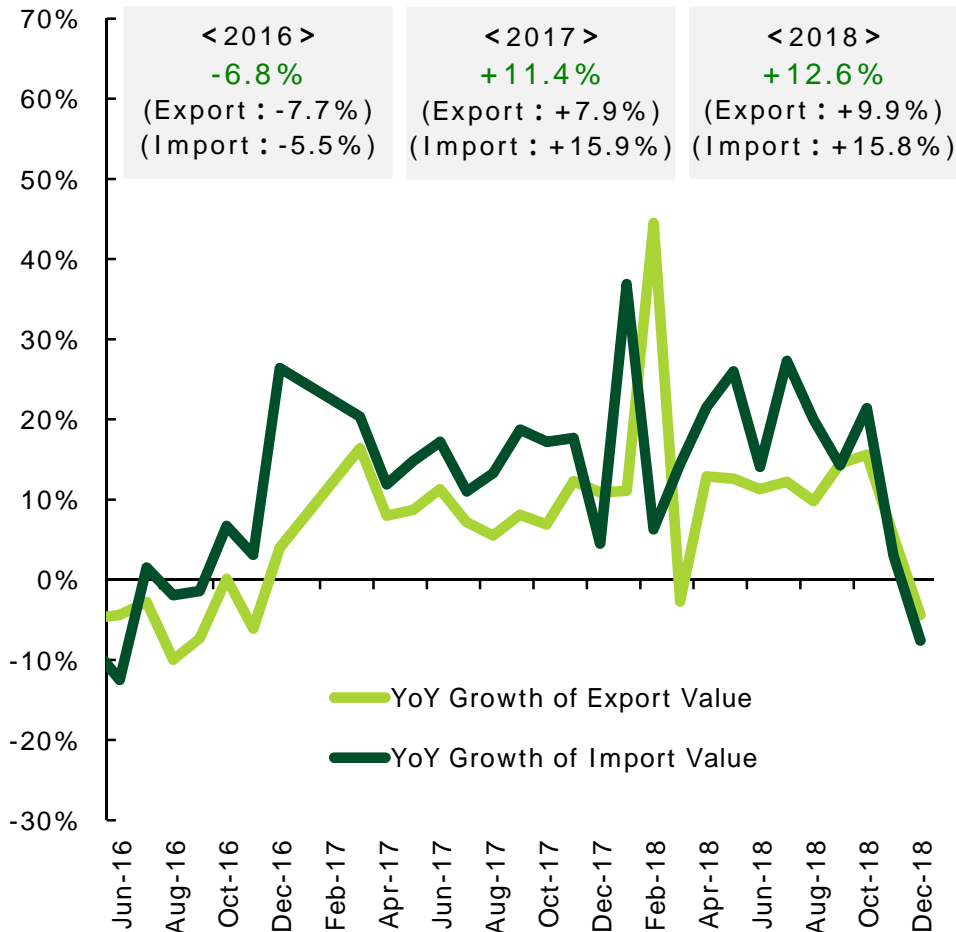
(Source) United States Census Bureau, Wind

3. Current Impacts of Tariffs

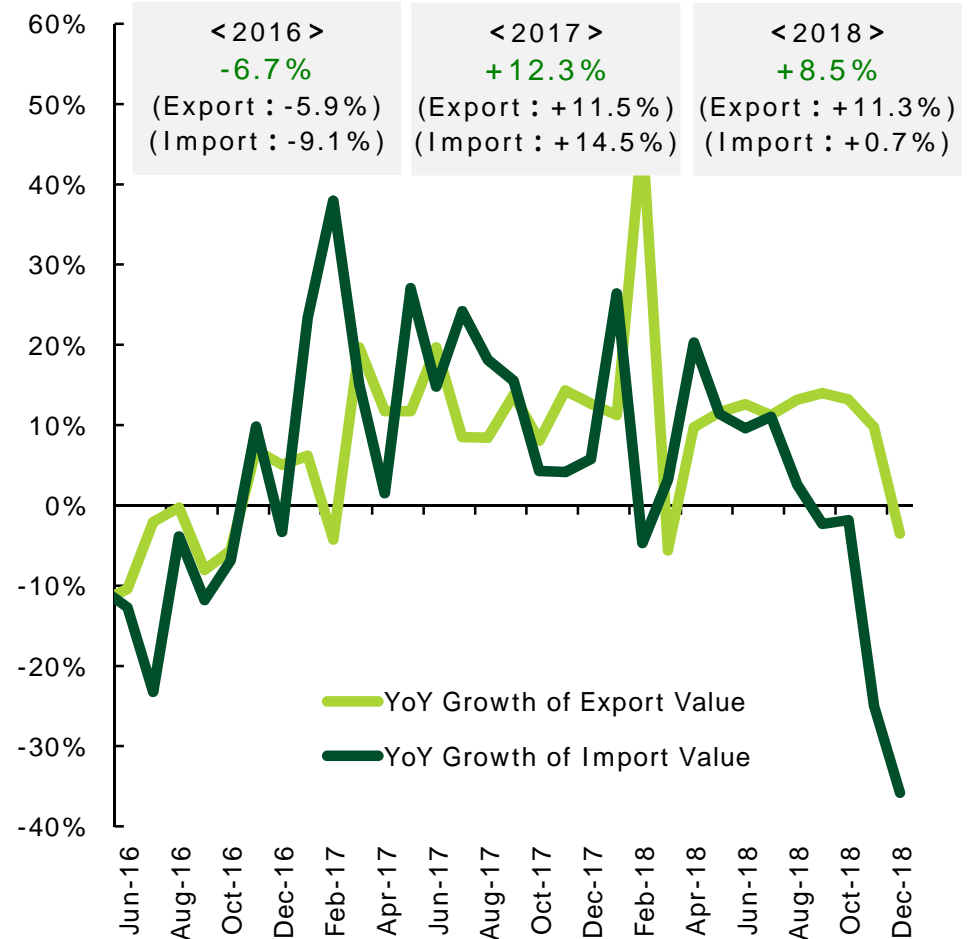
(1) China's Trade Situation

China's trades remained brisk until Oct 2018, but both exports and imports slowed down in Nov 2018, and turned to a negative growth in Dec 2018.

China's Total Exports and Imports



China's Exports and Imports with U.S.



(Source) National Bureau of Statistics of China

(Ref.) Exports & Imports by Region & Product in 2018

Export Ranking

		2018		
		Total (US\$bn)	YoY %	Change from 2017-Level
Total Exports		2,487	+9.9%	+2.0%p
Top 10 Exporters	U.S.	478	+11.3%	-0.2%p
	EU	409	+9.8%	+0.1%p
	ASEAN	319	+14.2%	+5.2%p
	Hong Kong	302	+8.2%	+11.0%p
	Japan	147	+7.2%	+1.1%p
	Korea	109	+5.9%	-3.8%p
	India	77	+12.7%	-3.8%p
	Taiwan	49	+10.6%	+1.3%p
	Russia	48	+12.0%	-2.8%p
	Australia	47	+14.2%	+3.2%p
Top 10 Products	Mobile phones	176	+8.4%	-0.5%p
	PC, components	172	+8.7%	-6.5%p
	Apparel	158	+0.3%	+0.7%p
	Textile	119	+8.1%	+3.6%p
	IC	85	+26.6%	+16.8%p
	Steel	61	+11.2%	+11.2%p
	Auto parts	55	+10.8%	+1.9%p
	Furniture	54	+7.6%	+3.1%p
	Footwear	47	-2.7%	-4.7%p
	Plastics	43	+12.2%	+3.6%p

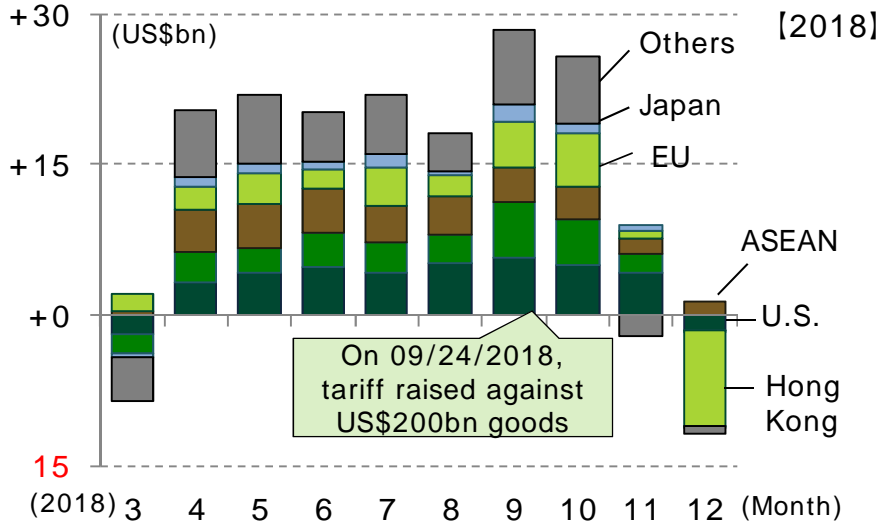
Import Ranking

		2018		
		Total (US\$bn)	YoY %	Change from 2017-Level
Total Imports		2,136	+15.8%	-0.1%p
Top 10 Importers	EU	274	+11.7%	-5.9%p
	ASEAN	269	+13.8%	-6.3%p
	Korea	205	+15.3%	+3.6%p
	Japan	181	+8.9%	-4.8%p
	Taiwan	178	+13.9%	+2.0%p
	U.S.	155	+0.7%	-13.8%p
	Australia	105	+11.0%	-22.7%p
	Brazil	78	+31.7%	+3.9%p
	Russia	59	+42.7%	+15.0%p
	Canada	28	+39.0%	+27.9%p
Top 10 Products	IC	312	+19.8%	+5.2%p
	Crude oil	240	+46.7%	+7.6%p
	Iron ore	76	-1.3%	-32.7%p
	Plastics	56	+16.3%	-1.0%p
	Automobiles	51	+0.0%	-13.4%p
	Soy beans	38	4.0%	-20.7%p
	Copper	37	+19.6%	+1.2%p
	Auto parts	35	+10.0%	+3.4%p
	Natural gas	38	+65.3%	+24.1%p
	PC, components	33	+19.3%	+17.8%p

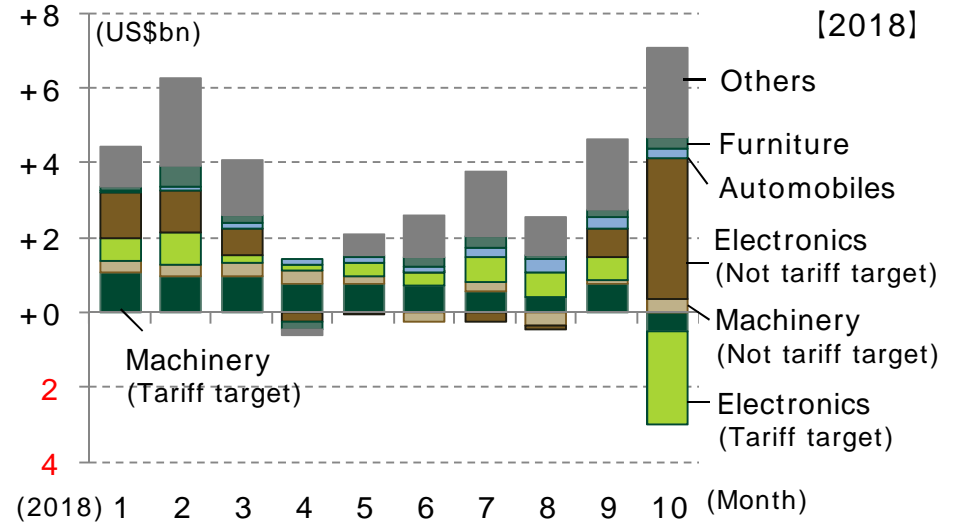
(Source) National Bureau of Statistics of China

(Ref.) Exports & Imports by Region & Product in 2018

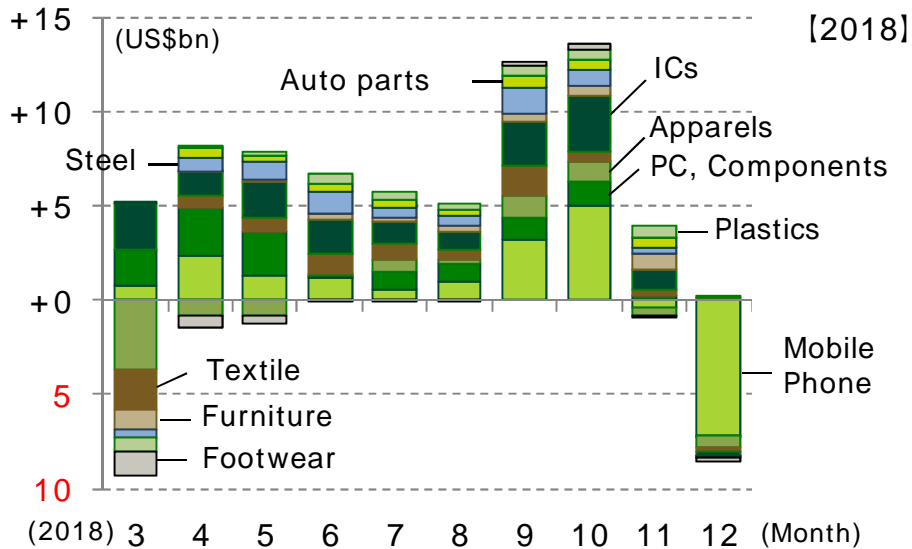
YoY Change in Export Value by Country/Region



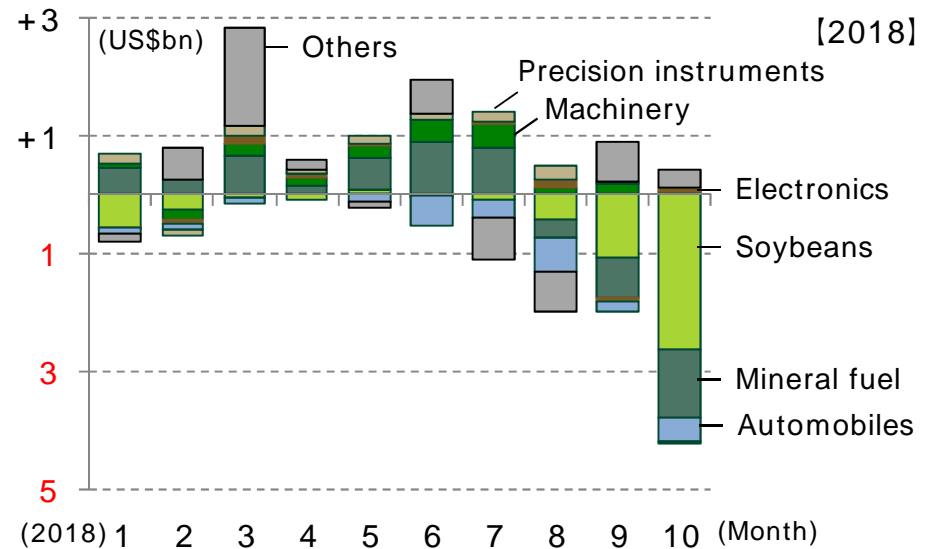
YoY Change in Export Value to U.S. by Product



YoY Change in Export Value by Product



YoY Change in Import Value to U.S. by Product



(Source) United States Census Bureau, National Bureau of Statistics of China

3. Current Impacts of Tariffs

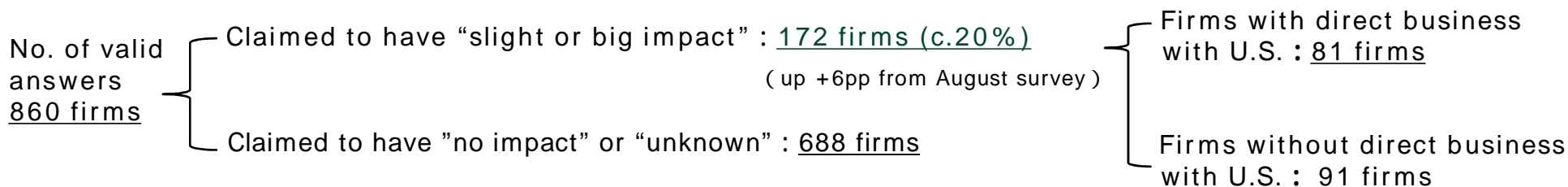
(2) SMBCCN Survey Overview

With cooperation from SMBCCN customers who have business in China, we conducted the 2nd survey on “the impact of U.S.-China trade friction” following the initial survey in Aug 2018. Presented below are the survey results based on the responses from the customers who claimed to “have an impact” (172 firms as of Dec 2018).

Survey Title : ”Impact of U.S.-China trade friction on corporations with business in China”

Survey Period : 13-28 Nov 2018 (The 1st Survey : 15-31 Aug 2018)

Survey Subject : SMBCCN customers with business in China



Major Questions :

- (1) Does U.S.-China trade friction have any impact on your business? [Slight or Big impact, No impact or Unknown]
- (2) Asking to respondent who chose in Q(1), please answer the areas of impact. (multiple answers allowed)
[Drop in exports to U.S., Drop in China’s domestic consumption, Increased trade costs, Forex volatility, Stock price drop, Others]
- (3) Do you consider or take any countermeasures? (multiple answers allowed)
[Shift of production bases, Shift of sales customers, Shift of suppliers, Price pass-through, None, Others]
- (4) To respondent who chose in Q(3), please answer target regions for shift. (multiple answers allowed)
[ASEAN, Japan, S. Korea, Taiwan, U.S., China, Others]

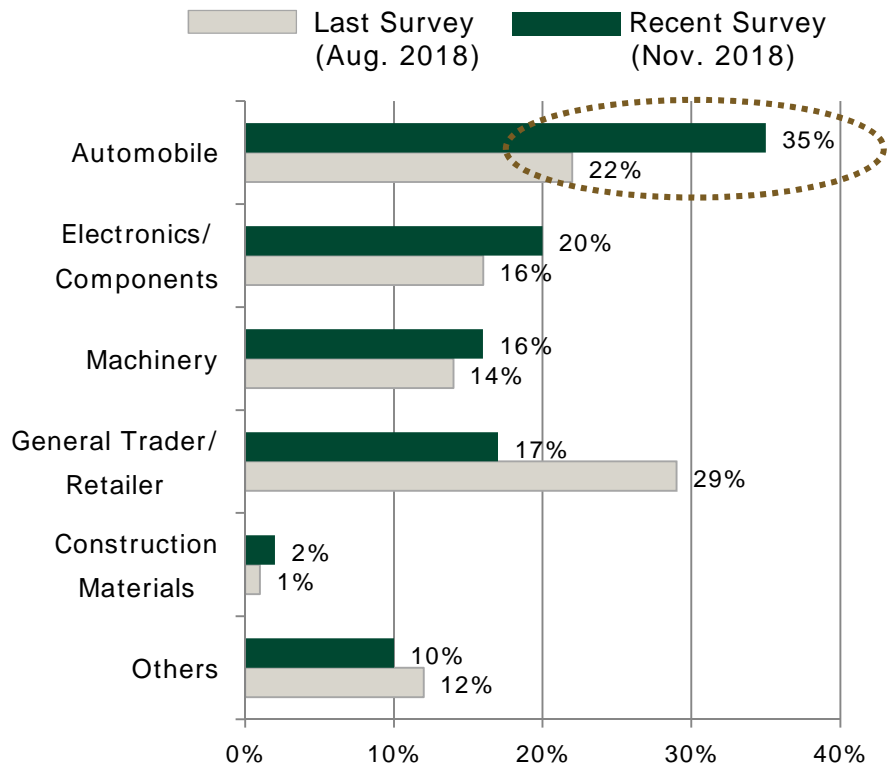
3. Current Impacts of Tariffs

(2) SMBCCN Survey Survey Results <Direct Impact>

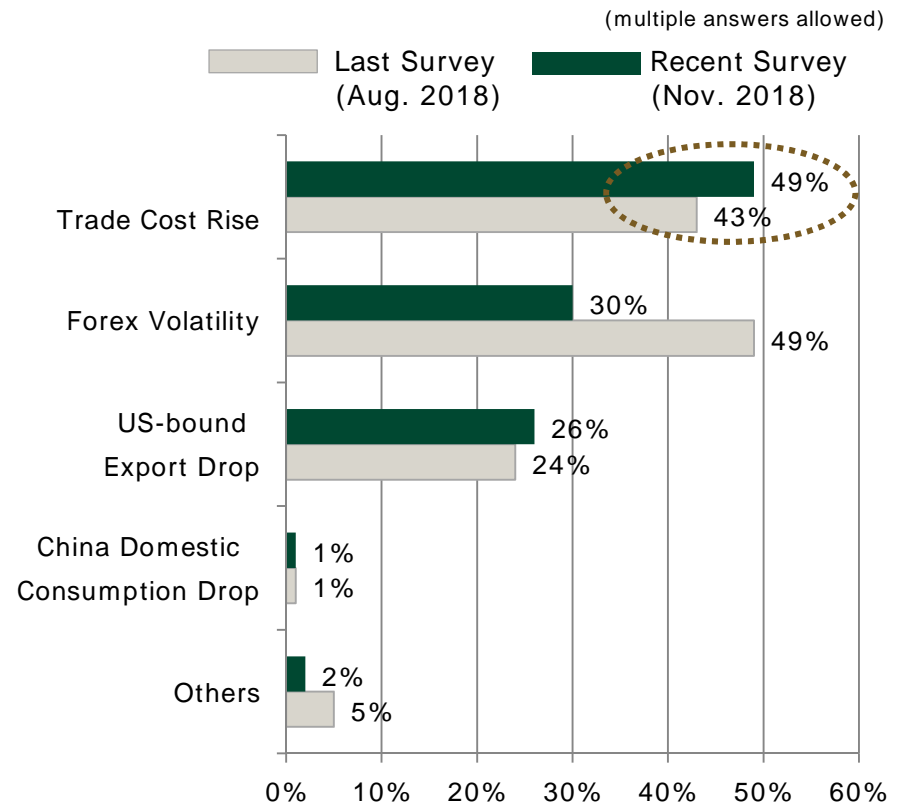
In the survey, among 172 firms who claimed to have an impact, 81 firms had direct business with U.S. Looking at their business sectors, the percentage of sectors with tariffs imposed in Sep 2018 (i.e. auto parts, electronic parts, machinery) increased from the last survey.

Looking at the areas of impact already visible or expected, the percentage of direct impacts (e.g. increase in trade costs, drop in exports to U.S.) increased in answers.

Sectors of Firms Claiming to Have an Impact, while Having Direct Business with U.S.



Areas of "Major Impact" in Answers



(Source) Prepared by SMBCCN based on the survey on impact of U.S.-China trade friction

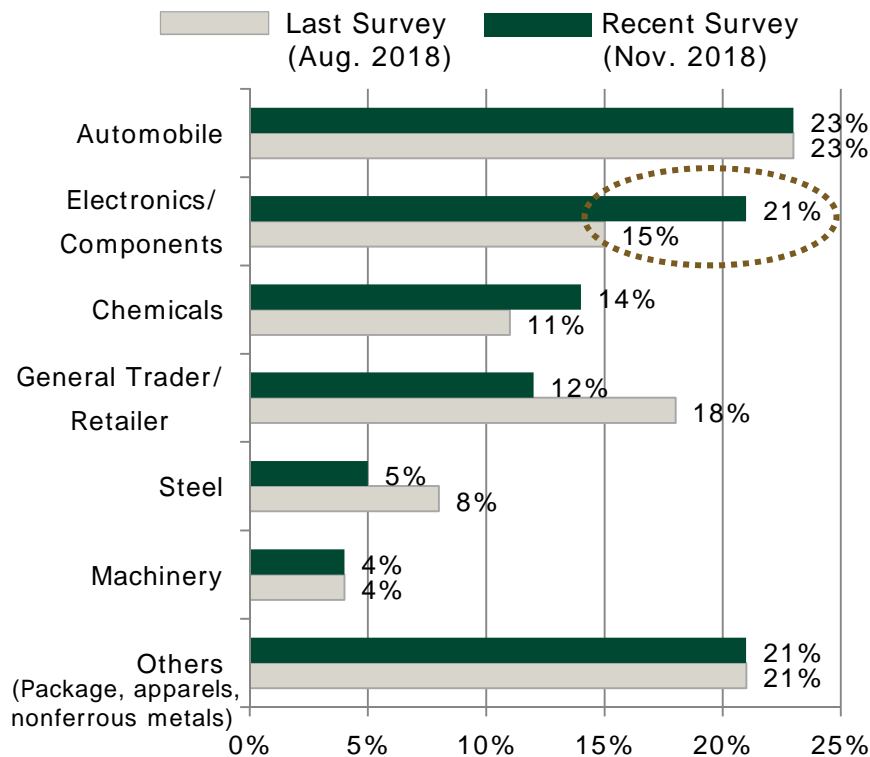
3. Current Impacts of Tariffs

(2) SMBCCN Survey

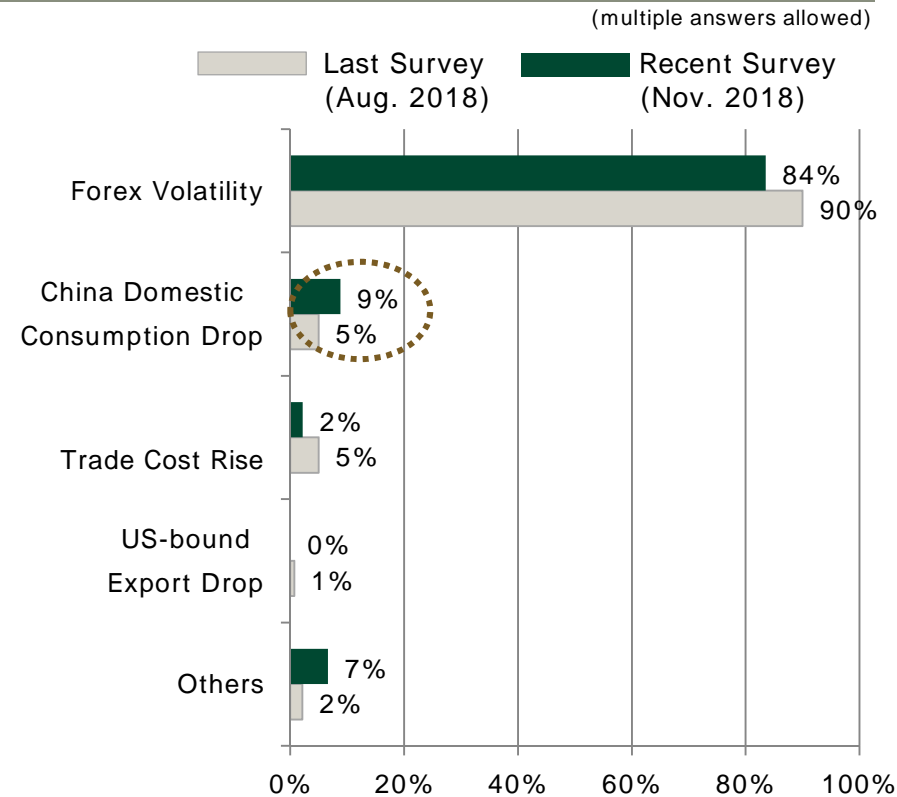
Survey Results < Indirect Impact >

In the survey, among 172 firms who claimed to have an impact, 91 firms did not have direct business with U.S. They were mainly auto parts and electronic component makers with broad supply chains, and chemicals makers. Looking at the areas of impact already visible or expected, the most-chosen answer was “rising forex volatility” as in the last survey. In addition, the percentage of firms who picked “a decline in Chinese domestic consumption” increased from the last survey. If the trade friction prolongs and spreads to wider product areas, the spillover effect will gradually expand.

Sectors of Firms Claiming to Have an Impact, while Having NO Direct Business with U.S.



Areas of “Major Impact” in Answers



(Source) Prepared by SMBCCN based on the survey on impact of U.S.-China trade friction

3. Current Impacts of Tariffs

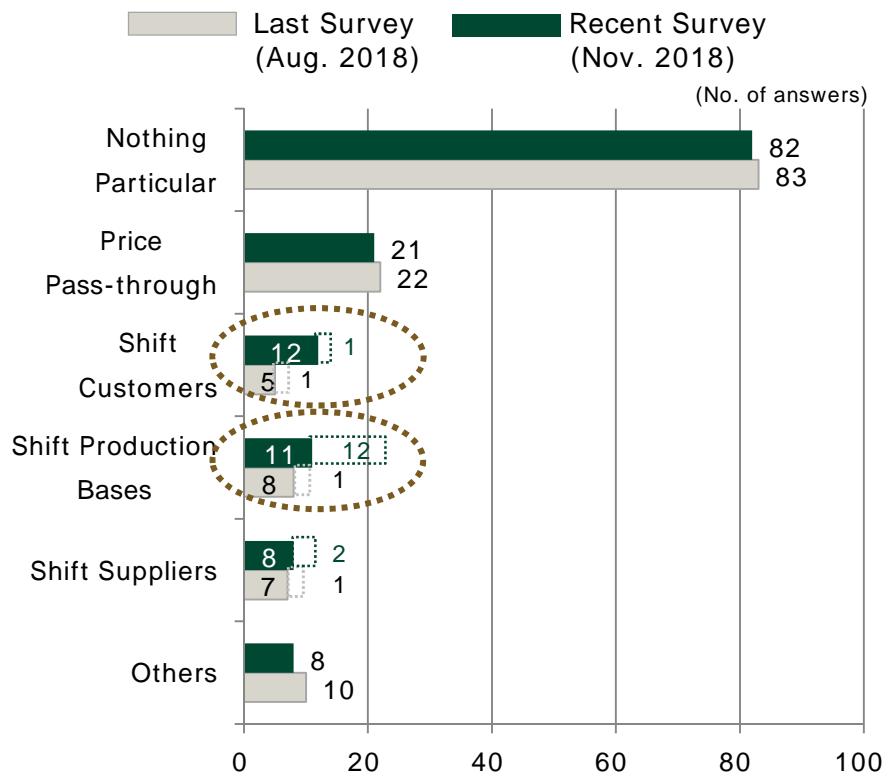
(2) SMBCCN Survey

Survey Results <Countermeasures>

Looking at the countermeasures taken by the responding firms, many said to have “wait-and-see stance,” followed by “price pass-through.” This suggests more firms intend to continue their exports and imports by factoring in the potential cost increase after the tariffs. Meanwhile, there are increasing number of firms who are considering to shift customers and relocate production bases. If the trade friction persists, they will likely start considering full-fledged measures.

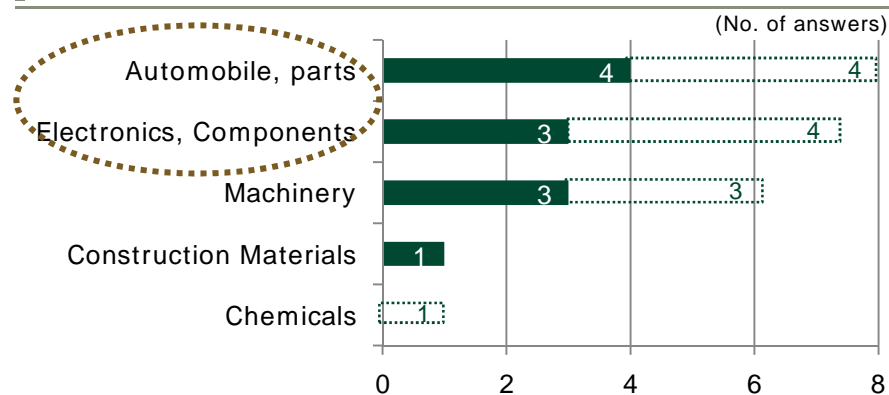
Countermeasures under Consideration

Survey results on the countermeasures considered by firms who claimed to have an impact on their business. (multiple answers allowed)

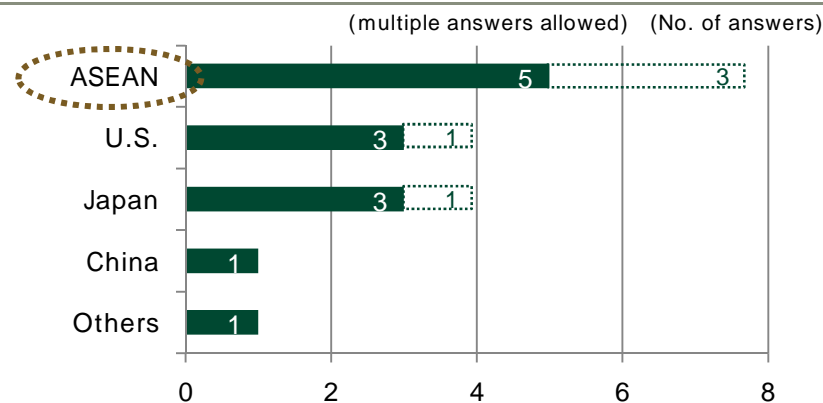


It indicates firms who said “no impact on their business,” but still consider to shift sales customers, production bases and suppliers.

Sectors of Firms Claiming to Consider “Relocation of Production Bases”



Target Region for Production Relocation



(Source) Prepared by SMBCCN based on the survey on impact of U.S.-China trade friction

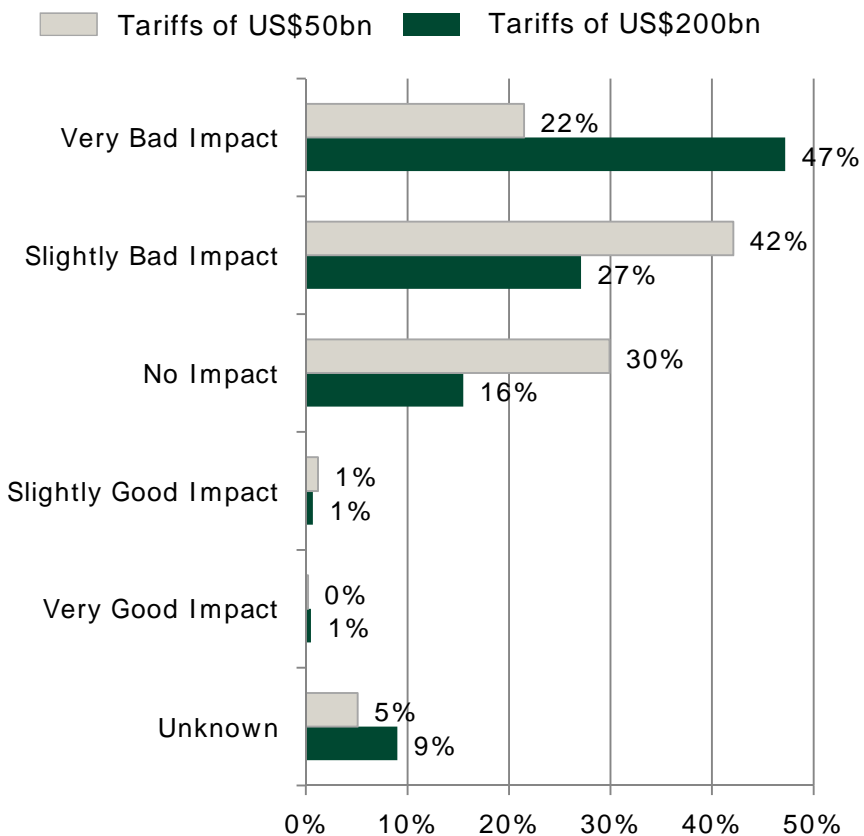
(Ref.) Recent Moves of Companies with Business in China

Company	Sector	Date	Press Release
(JP) Keihin	Auto Parts	08/2018	For products exported from China to U.S., currently consider not to include new products in production lines in China.
(JP) Mitsubishi Electric	Machinery	08/2018	Already relocated 'machine tool' production to Japan.
(JP) SMC	Machinery	10/2018	Currently consider to relocate a part of 'pneumatic equipment' production lines to Vietnam.
(JP) Toshiba Machine	Machinery	10/2018	Already relocated production lines of 'injection molding machine' from Shanghai to Japan and Thailand after 10/2018.
(JP) Tsugami	Machine Tools	10/2018	Already relocated production of 'automatic lathes' which process bar-shaped materials from China to Japan.
(JP) Sumitomo Electric	Electric Equipment	11/2018	Currently consider to relocate production lines of 'auto parts (electric wire)' to Southeast Asia.
(GER) BMW	Automotive	07/2018	Expand production capacity in China.
(US) Tesla	Automotive	08/2018	Plan to shift to local production in China by 2020.
(US) Ford Motor	Automotive	08/2018	Plan to produce 'luxury car, Lincoln' locally in China from 2019.
(TW) Wistron	Electronics Component (EMS)	09/2018	Resume production of 'servers' in Subic of the Philippines, while persuading partner makers to shift their production to the region.
(TW) Quanta	Electronics Component	09/2018	Currently consider to produce 'servers' in Taiwan.
(TW) Pegatron	Electronics Component	09/2018	Currently consider to relocate production lines of 'network equipment' from Suzhou of China to Taiwan.
(TW) Delta Electronics	Electronics Component	09/2018	Aiming to enhance Thai production, announced TOB to make its affiliate 'Delta Electronics Thailand' be its local subsidiary.

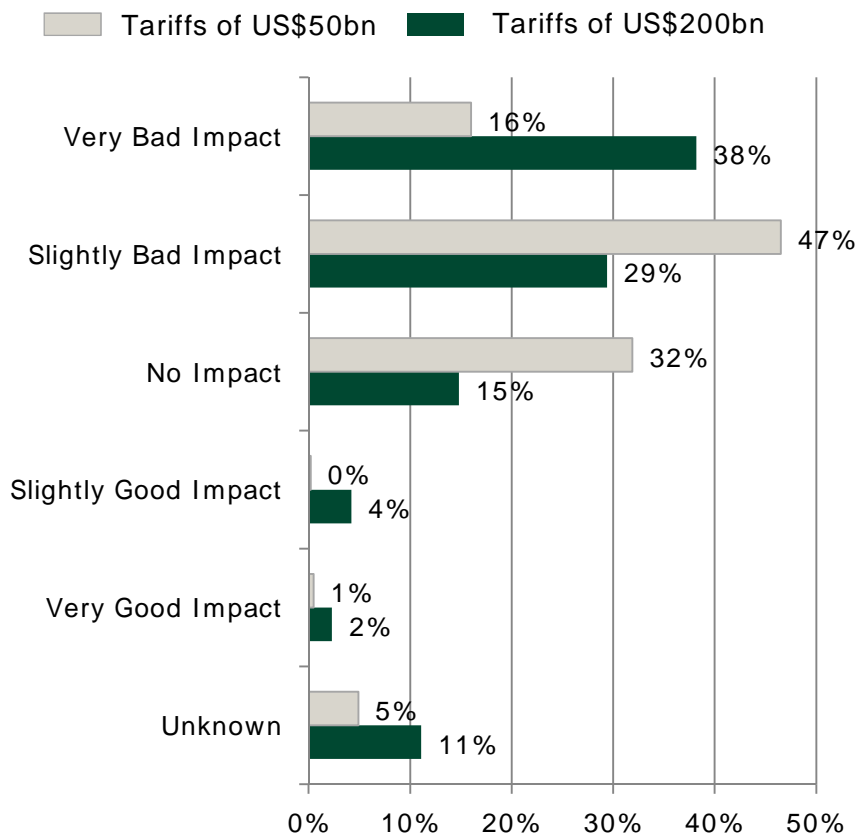
(Source) Prepared by SMBCCN based on contents issued by Hibor.com.ch

(Ref.) Survey by American Chamber of Commerce in China (to U.S. Firms with Business in China)

Impact of U.S. Tariffs



Impact of China's Tariffs

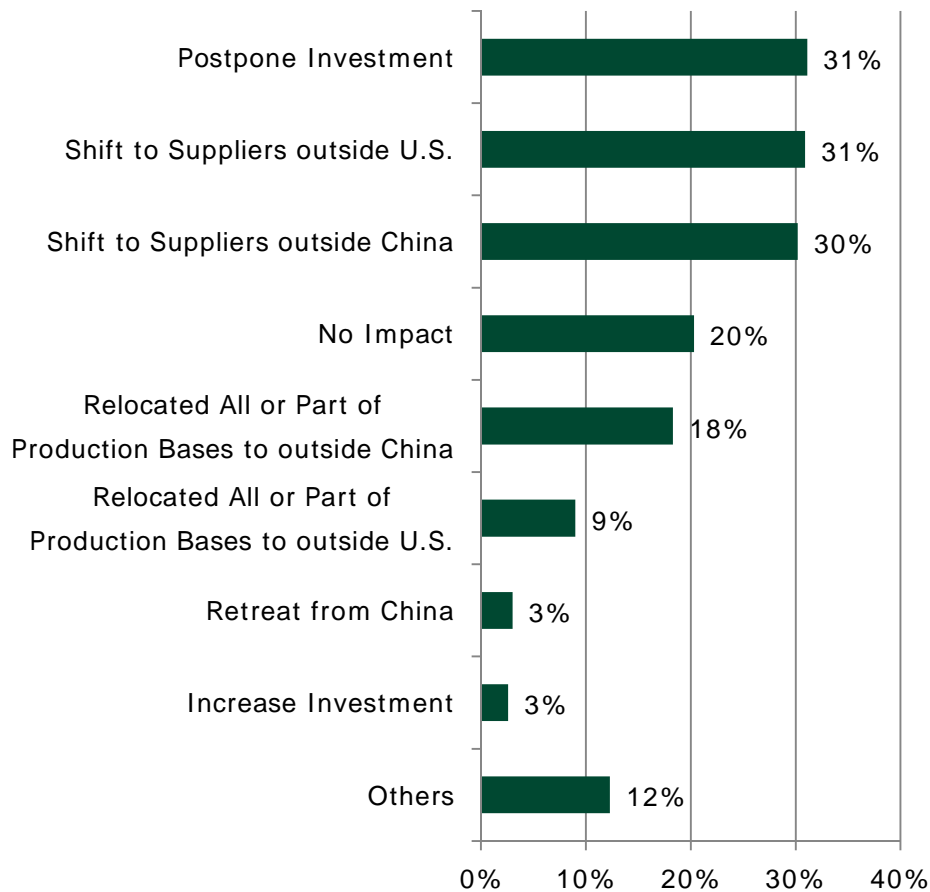


(Source) Prepared by SMBCCN, based on materials issued by American Chamber of Commerce in China

(Ref.) Survey by American Chamber of Commerce in China (to U.S. Firms with Business in China)

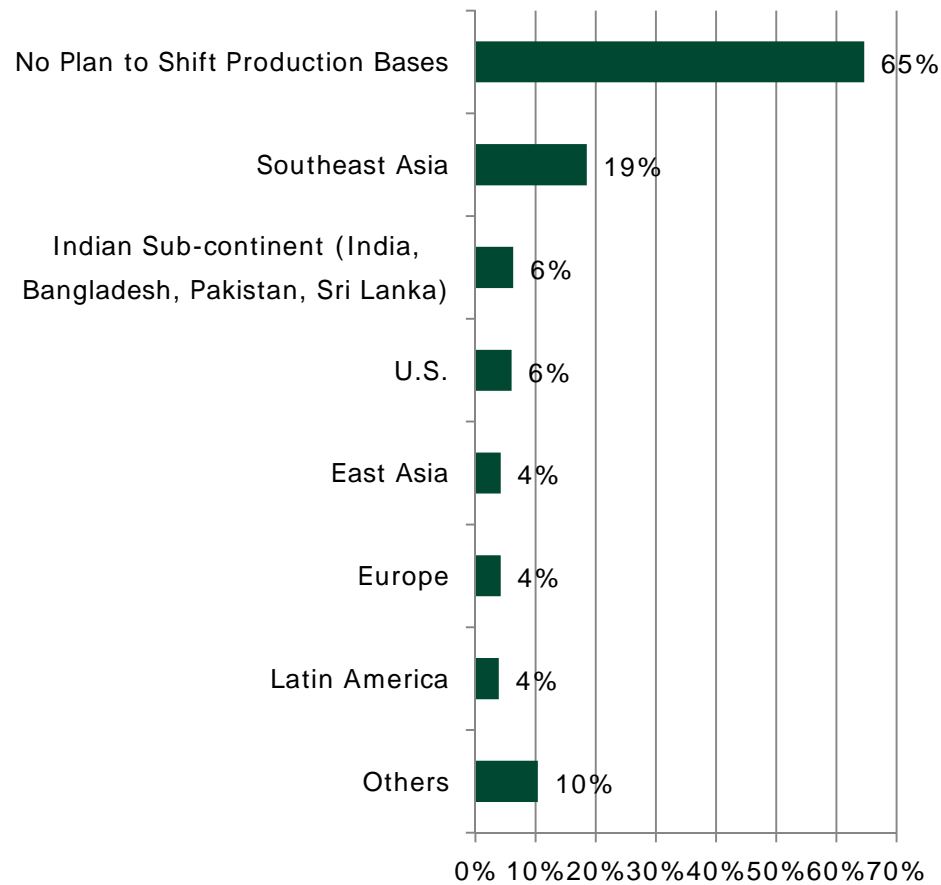
Impact of U.S. Tariffs on Corporate Strategy

(multiple answers allowed)



Relocation of Production Bases

(multiple answers allowed)



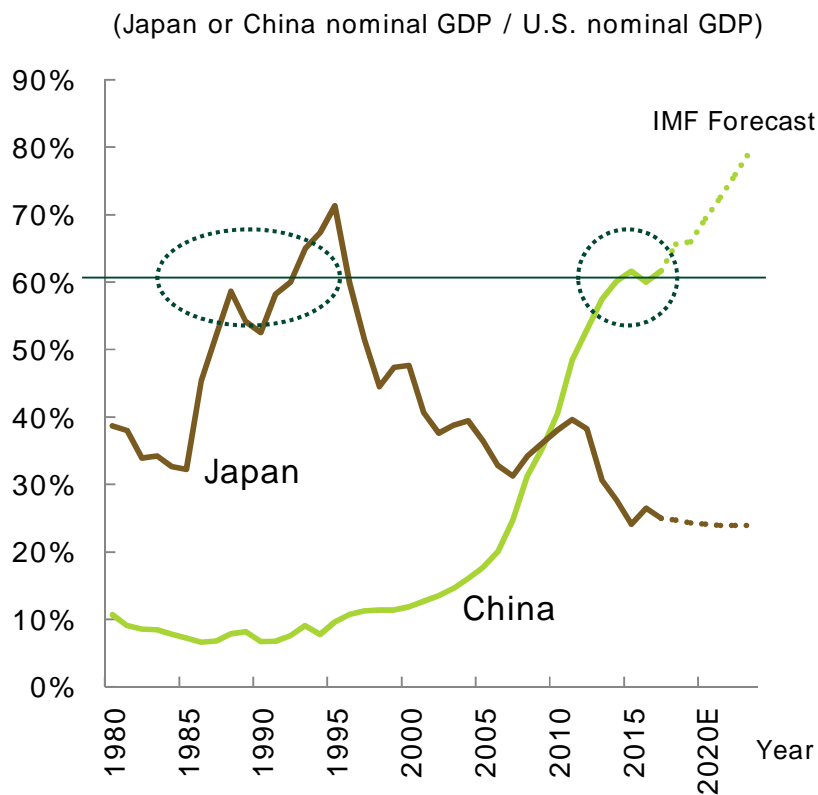
(Source) Prepared by SMBCCN, based on materials issued by American Chamber of Commerce in China

4. Future Development

(1) Implications from U.S.-Japan Trade Friction

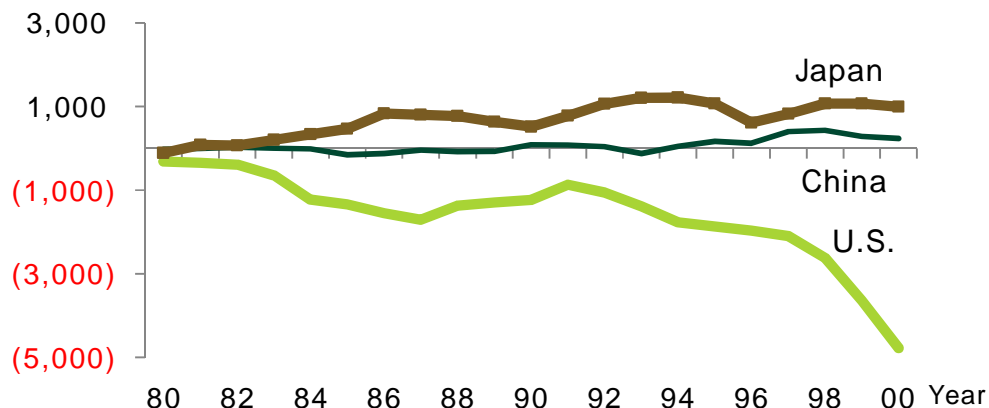
In '80s-'90s, U.S. faced trade friction with Japan, its trading partner to which it had the largest trade deficits. Despite the series of measures taken to resolve the issue (below table), U.S. trade balance failed to improve, and the bilateral talks prolonged. From the past experience, U.S.-China trade talks may also prolong and develop into additional tariffs or issues involving open-market, forex market intervention and further tightening of intellectual property protection.

Comparison of Japan & China GDP with U.S.



(Source) IMF

Trade Balance ('80s-'90s)



[U.S. Key Measures to Resolve Trade Deficits to Japan]

- (1) Tariffs on Japanese products (to reduce Japanese imports)
'87 : Trade Act Section 301 (Impose 100% tariffs on Japanese computers, TV and power tools)
- (2) Bilateral talks on Japan's open market (to increase exports to Japan)
'86 : US-Japan Semiconductor Agreement (requested Japan to promote domestic consumers to use foreign-made chips)
'88 : Agreement on Beef & Orange Import Liberalization (requested Japan to lower import tariffs & remove import quotas)
'91 : New Semiconductor Trade Agreement (requested Japan to raise US product market share to 20%)
- (3) Correction of Dollar Appreciation
'85 : Plaza Accord (5 nations agreed to intervene in currency markets - US, UK, Germany, France & Japan)

(Source) WTO

(Ref.) U.S. Sanctions & Moves of Foreign Companies

Besides tariffs, U.S. government imposed various sanctions against China, including ban on purchase of Chinese telecom equipment by U.S. government offices, ban on U.S. product exports to the listed firms, and tighter control/screening on Chinese investment in American firms. Thus, players considering to enter into China market or partner with Chinese firms should monitor U.S. moves.

U.S. Trade Restrictions against Chinese Companies

Area	Measures
Trade	Section 301 of Trade Act to raise import tariffs on Chinese electronics products (e.g. components), machinery, etc.
Corporate Business	Ban U.S. government offices to procure Chinese telecom equipment, ban on corporate trading with Chinese telecom maker ZTE (on electronics components & materials), export sanction against Chinese chip maker JHICC (on manufacturing equipment)
Investment	Ban Chinese funds to acquire U.S. chip makers (Lattice Semiconductor, Micron Technology)

Strict Screening on Foreign Investment by CFIUS

Category	Coverage of Screening
Investment	Besides M&A, capital investment in small amount and joint venture establishment are added to the coverage.
Sector	27 sectors including semiconductor, telecommunications, aircraft, biotechnology, nanotechnology and missiles.

Tighter Control on Chinese Visas

Shorten the length of visas granted to Chinese students majoring in high-technology from 5 years to 1 year

U.S. Regulations on ZTE

Law/Regulation	Export Administration Regulations (EAR)	Iranian Transactions & Sanctions Regulations (ITSR)	National Defense Authorization Act (NDAA)
Authority	Bureau of Industry and Security (BIS)	Office of Foreign Assets Control (OFAC)	U.S. Congress
Overview	Ban on exports of U.S. products or overseas products originated in U.S. to designated entities/individuals	Ban on trades with Iran	Ban on state offices to purchase or contract equipment/services using 5 Chinese firms' products (19/8-)
Subject	American, non-American		Government offices
Penalty	Civil /Criminal /Administrative Penalties (Trade ban, etc. <see below >)		Not stated

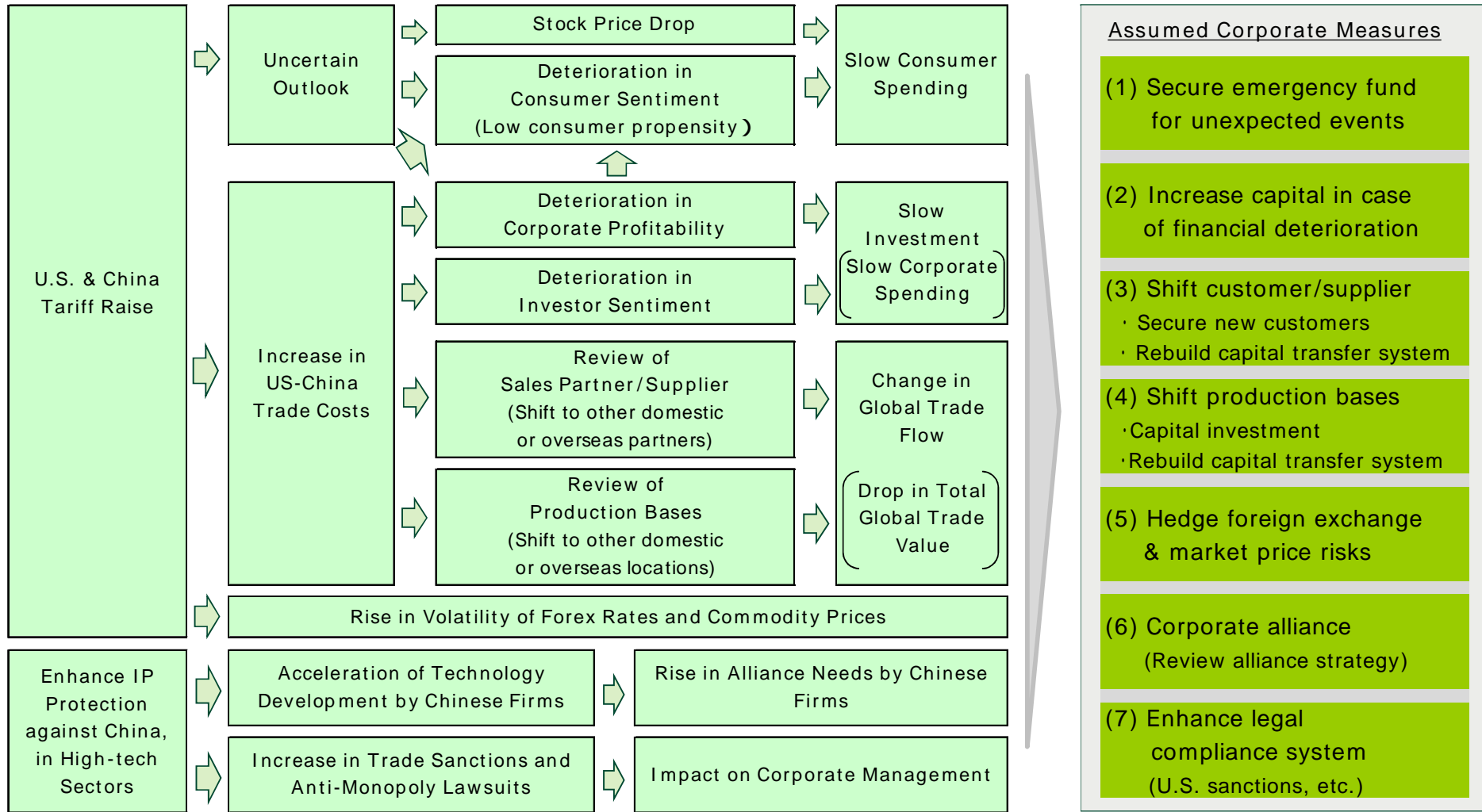
Trade Ban List

List	Denied Person List (DPL)	Specially Designated Nationals (SDNs) List
Authority	Bureau of Industry & Security (BIS)	Office of Foreign Assets Control (OFAC)
Overview	Individuals/companies subject to trade ban due to violation of Export Administration Regulations (EAR)	Companies or individuals subject to economic sanctions.
Trade Ban	Ban on exports from U.S. and re-export of U.S. products to the listed individuals/companies	Full ban on trades with the listed individuals/companies, asset freeze (including financial institution transactions)

4. Future Development

(2) Possible Impacts and Countermeasures

Tariffs imposed by the two top global trading countries, U.S. and China, will have a negative impact on economies including corporate profitability and consumer spending, while it will lead to a global supply chain reshuffle around players producing/selling globally. Besides the tariff effects, companies will need to prepare for a rise in forex and market risks and enhanced intellectual property protection.



(Ref.) Trend in Forex Rate of RMB against USD



(Source) Wind

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SMBCCN-CRSD Industry Coverage by Analyst

Analyst		Industry
GM	Takashi,TSUCHIYA	Department Head, Planning, Macro Economy
Team1	Ryuichi,SEKI	Electronics, Steel, Non Ferrous Metal, Paper & Pulp,Macro Economy (Seki)
	Beiqian,Lu	
Team2	Xiaodan,Deng	Machinery, Shipbuilding, Transport, Ceramics, Macro Economy (Deng)
	Chenkan,Kong	
Team3	Takuo,KIMURA	Automobile, Petro Chemical, Energy
	Lei,Fang	
	Yishan,Cui	
Team4	Di,Liu	Retail, Household (Apparel, Food & Beverage), Sundry Goods
	Jianyi,Zhou	
Team5	Suming,Yu	Property, Finance, Medical HealthCare
	Wenxiang,Hu	
-	Yanzhong,Wang	Research Assistant, Translator

...Team Head