China trade

China has most to lose in US trade showdown, says report

Little impact on developed economies but spill over could mean pain for US consumers

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7 HOURS AGO by: Tom Mitchell in Beijing

The immediate impact of any trade war between the US and China would be worse for Beijing, according to a new analysis of multinational companies' exposure to the Chinese market.

Nor would the export sectors of the US and other major developed countries be significantly affected by an economic slowdown in China, says a report by The Conference Board drawing on export data.

The New York-based corporate think tank found that US and EU value-added exports to China were equivalent to 0.7 per cent and 1.6 per cent respectively of national economic outputs. Even for neighbouring Japan, the figure was just 2.1 per cent.

China's value-added exports to the US, by contrast, were equivalent to roughly 3 per cent of its gross domestic product, suggesting that Beijing has more to lose in any trade showdown with the Trump administration.

"A trade war between the US and China, as seen through these data, doesn't appear to be a major threat to the US economy," said Erik Lundh, one of the report's authors who is a senior Conference Board economist.

Mr Lundh, however, warned that the collateral damage from all-out trade war between the world's two largest economies would be considerable for both sides.

"A trade war between the US and China would spill over into other important facets of the relationship that could be quite painful for the US," he said, noting that American consumers would be hit by higher prices for imported goods. "A collapse in US trade with China would have an immediate impact on consumers vis-à-vis inflation."

China exposure of selected countries (2014)

	GDP ($bn)	Value-added exports to China ($bn)	China exposure as a per cent of GDP
US	17,348	121	0.70
EU	16,452	256	1.60
Japan	4,438	95	2.10
India	1,994	18	0.90
Australia	1,357	59	4.40
South Korea	1,287	87	6.80
Indonesia	869	21	2.40

Sources: The Conference Board; World Input Output Database

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Last week Steve Bannon, the controversial political adviser to US President Donald Trump who was ousted on Friday, said that the US and China were engaged in an "economic war" from which there could only be one winner.

China's foreign ministry responded that both sides would suffer in the event of increased trade friction between the world's two largest economies.

A trade war between the US and China would spill over into other important facets of the relationship that could

In its report released on Monday, The Conference Board breaks down traditional trade data that treats, for example, a Canadian tractor sold in China as an entirely Canadian export even if constructed partly with US-sourced components. The Conference Board's figures instead count the

be quite painful for the US

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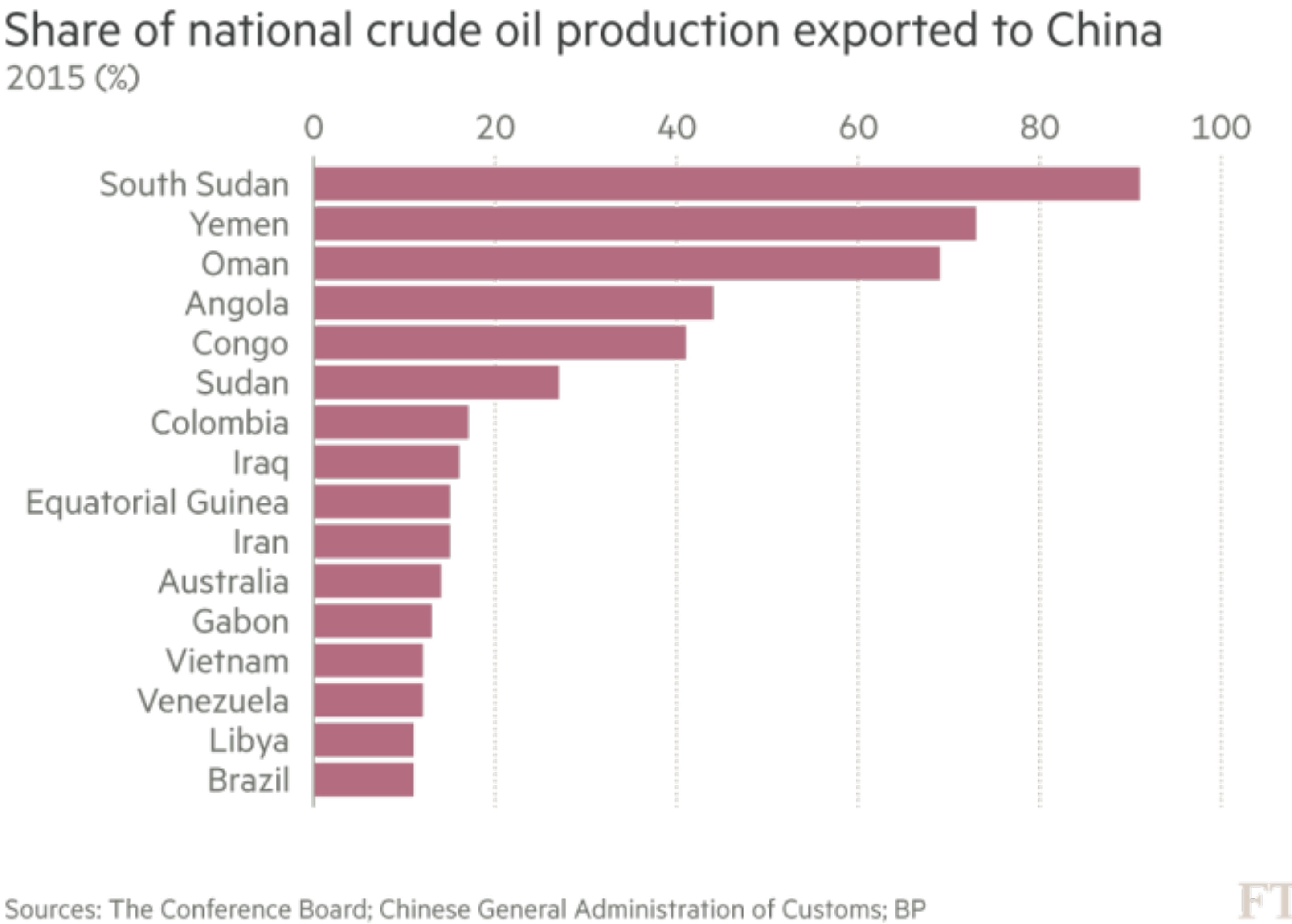
Canadian tractor's US components as US exports to China.

Similarly, components sourced from South Korea and Taiwan for a China-made iPhone that is ultimately sold in the US are counted as Korean and Taiwanese exports to the US.

The report found that while MNCs' direct and indirect exposures to everything from Chinese currency policies to outbound tourism are "intensifying in terms of reach and magnitude", from a trade perspective "the world, by and large, bears low dependencies on China".

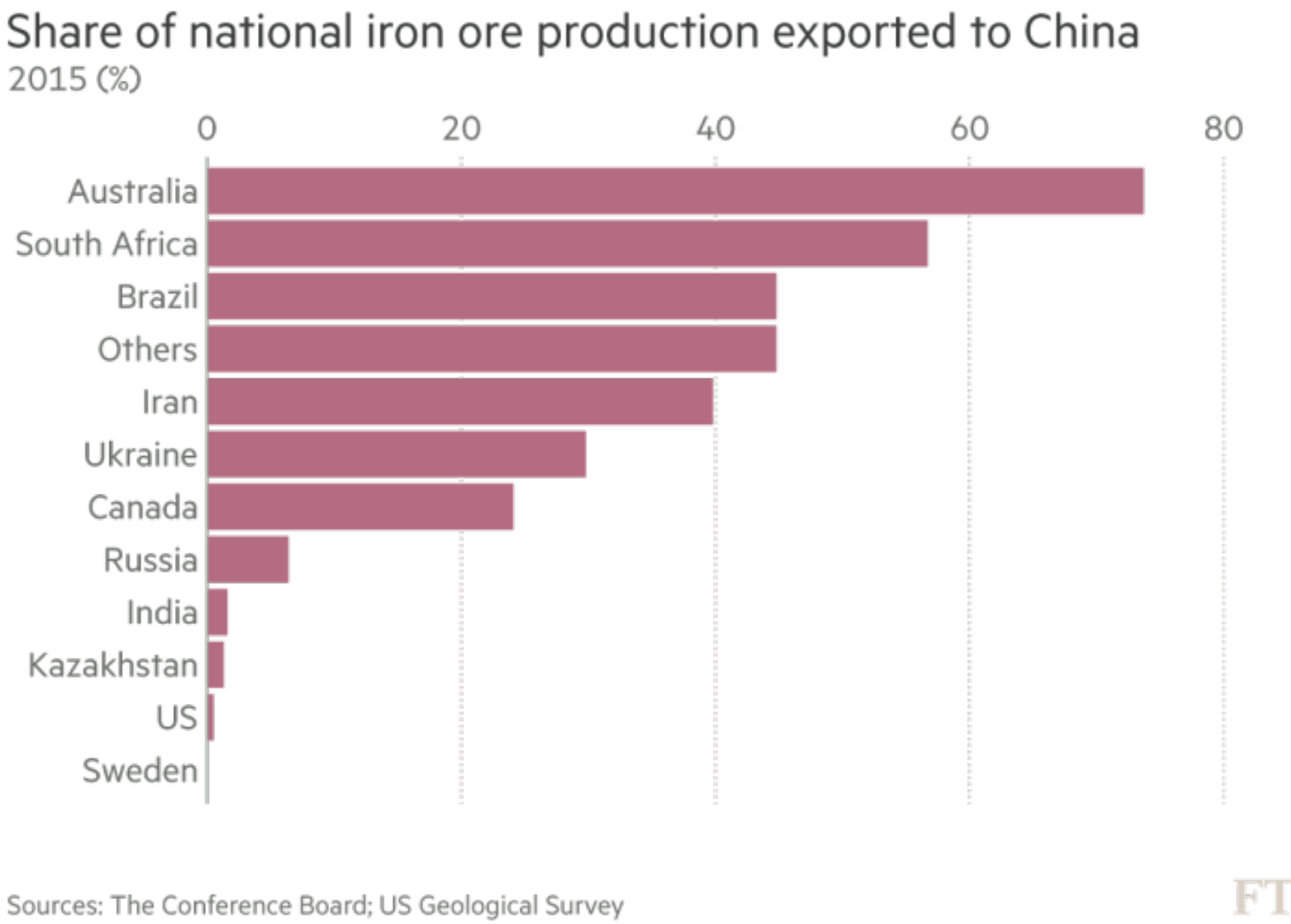
Notable exceptions include South Korea and big natural resource exporters such as Australia, whose value-added exports to China are equivalent to 6.8 per cent and 4.4 per cent respectively of their annual economic output. Beijing has used its economic leverage over Seoul in an attempt to prevent the deployment of a US anti-missile system.



Trade figures that capture the complexity of modern supply chains, by tracking the origin of components rather than just finished products, tend to show that bilateral trade imbalances are often exaggerated.

In March, The Conference Board estimated that based on value-added goods and services exports, the US trade deficit with China in 2014 was $200bn — or nearly half the $360bn deficit based on traditional trade data.

China is the world's biggest importer of food and energy, buying about 20 per cent of global exports in both sectors. It is also the dominant customer for many small, energy-rich nations. In 2015 China purchased 40-90 per cent of the crude oil produced by Congo, Angola, Oman, Yemen and South Sudan.


Share of national iron ore production exported to China
2015 (%)
0
20
40
60
80
Australia
South Africa
Brazil
Others
Iran
Ukraine
Canada
Russia
India
Kazakhstan
US
Sweden
Sources: The Conference Board; US Geological Survey
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