

A-LIST POINT OF VIEW



The US-China Trade War: Impact on Asia and Outlook



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Background

On Wednesday, August 28 2019, Ambassador Chan Heng Chee, Ambassador-at-Large with the Singapore Ministry of Foreign Affairs shared her insights on the impact of the US-China trade tensions on the region as well as the outlook over the medium term. Previously, Ambassador Chan served as Singapore's Ambassador to the United States and Singapore's Permanent Representative to the United Nations. She is also Global Co-Chair of the Asia Society, a global non-profit organization that focuses on building relations between Asia and the West through education, arts, policy and business outreach.

Key Takeaways

- US-China relations are at their frostiest since the Cold War. The initial trade dispute has evolved into a trade war, and now a technological war. Tariffs have been traded, as well as threats. This is at essence a tussle for influence.
- Asia, which was viewed as a centre of stability and high growth, has not been exempt from global volatility. This has been manifested in the protests in Hong Kong, the Japan-Korea spat and tensions in India's border state of Kashmir.
- The US-China trade war shows no signs of abating, with both sides showing little will for a deal. The general sentiment in the US is to have a tougher stance on China. Programs announced by China such as the Belt and Road Initiative (BRI) as well as the Made in China 2025 are now seen as competition, but the risks posed by these initiatives have been misrepresented.
- Businesses will have to be prepared as the world is entering an extended period of uncertainty. The weaponization of trade by the US has set an unhealthy precedent for other countries and there are no rules in place to guide the path forward even as the rulebook is being torn up.
- While bigger countries can live in a world without order, smaller ones such as Singapore will suffer. Even as some countries are banding together in search for solutions, this will not be easy in an increasingly protectionist environment.

US-China Relations on a Downward Spiral

What started as a trade dispute has evolved into a technology war, with other factors such as Hong Kong thrown into the mix. The linkage of Hong Kong to the trade war will lower the possibility of a US-China deal, as Hong Kong is a core interest for China and it will not yield on this front.

At present, there appears to be little will to come to the table. The Trump Administration is caught between three camps with different demands in the White House. While the first wants a deal, the second wants to change how China is organised, such as its state-driven model of business through its state-owned enterprises (SOEs), which is a non-starter for the Chinese since the SOEs form a major component of China's economy, and the third camp wants to control China through trade and does not seem interested in a deal.

Any approach that focuses on the internal reorganization of China is unlikely to work as China will perceive it as an infringement of its sovereignty. A more realistic goal for US businesses would be to seek greater market access and IP protection through a trade deal.



China: A Mischaracterised Actor?

The roots of the trade war predate the Trump Administration, with US companies facing difficulties operating in China due to factors such as the lack of intellectual property (IP) protection and subsidies to SOEs that provide them with an unfair advantage. This sense of threat was enhanced by China's major projects such as the Made in China 2025 and BRI.

However, China's ambition as articulated in Made in China 2025 to be pre-eminent in robotics, defence and aviation, fields that the US traditionally sees itself as the global leader, is hardly surprising and many other countries also aspire to be the best. The US may not necessarily be the loser in this competition as it retains strengths in these areas. Just as China is investing heavily in research and development in technology, US companies can and should also do the same in order to retain its position as the global leader in these areas. The US also has inherent strength in these fields, given the number of research institutions it has.

As for BRI, suspicions that China is deliberately setting debt traps for countries are unfounded. While there are valid concerns over the lack of transparency, BRI projects can also be risky for the Chinese. The oft-cited case of Sri Lanka's Hambantota Port had started off with the Sri Lankan government's ambition to compete with Singapore as a regional transport hub. A feasibility study by Danish company Ramboll had demonstrated that Hambantota would be economically viable if it focused on a vehicle transshipment and fuel bunkering model. However, domestic infighting had prevented the fuel bunkering portion from taking off, resulting in the port struggling for revenues and hence loan repayment, rather than based on deliberate Chinese design to entrap Sri Lanka.

What the trade war means for Asia

Asia is and will not be insulated from the trade war. Although there has been talk that countries in Asia such as Vietnam, Malaysia and Indonesia are benefitting from trade diversion, these benefits are likely to be temporary. With the trade war dragging on, business confidence will dip and the whole world will be affected.

US disengagement from the region and the America First policy has arguably heated up tensions across Asia-Pacific. Unencumbered by the world's policeman, an emboldened North Korea has been launching missile tests, while tensions between Japan and South Korea have escalated beyond a historical dispute to a trade war of their own. China has also continued its aggressive behaviour in the South China Sea.

With the US-China trade war raging on, ASEAN countries have started hedging their bets. However, in this landscape of shifting alliances, any tilt towards China does not necessarily exclude a role for the US, as countries in the region want to have options. There will be opportunities for US businesses to cooperate and maintain its presence in ASEAN.

A-List's Outlook

There is likely to be greater unpredictability with the trade war continuing in the medium term. The US' weaponization of trade has set an unhealthy precedent for others to follow suit. Protectionist sentiments are already gaining ground and this will make for a more difficult environment for smaller countries dependent on trade to operate in.

The appetite in the US, even among the Democrats, is to present a tough stance on China. That said, a Democrat Administration post-2020 Presidential elections may be more amenable to cooperating with China on less sensitive issues.