



**Royal University of Law and Economics**

**Final Report on**

**US-China Trade War: Risks  
And Opportunities Toward  
Southeast Asia Nations**

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# **ABSTRACT**

## **US and China Trade War**

### **Risks and opportunities toward Southeast Asia Nations**

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The recent US-China trade relations is ongoing through a hard time. The Trump administration alleged China to be unfairness in trade then it caused large trade deficits and US people suffered a lot from it. Hence, when this trade tension happened it effect to both powerful countries, however this is not effected only to both countries it's exactly effected to the countries in Southeast Asia Nations. In this thesis is seek to briefly discuss about the US-China trade war and it is influence to the Southeast Asia Nations. Moreover, this thesis will follow the statement "US-China trade war the risks and opportunities for Southeast Asia Nations" Base on the finding sources and information we combine into easy way to understanding. More importantly, this thesis intends on timeline of the US-China trade war, especially what are the risk and opportunities of Southeast Asia and the readers would understand the process of US-China trade war in this duration of tension. US and China Trade War is the hot topic and still in the situation to the process of negotiation or what's else the US impost the tariff on. This in considering, and the world are looking forward to wish both countries be in negotiate and stop impose the tariff on each other. In conclusion, this thesis going to conclude and analyst of this trade tension what would happened when this trade still ongoing and what's else that could impact to Southeast Asia Nation.

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## **LIST OF ABBRIVIATIONS**

ASEAN	: Association of Southeast Asian Nations
BTA	: Bilateral Trade Agreement
CBP	: United States Customs and Border Protection
EU	: European Union
FDI	: Foreign Direct Investment
GDP	: Gross Domestic Product
IMF	: International Monetary Fund
LDC	: Least-developed country
LPG	: Liquid Petroleum Gas
OECD	: Organization for Economic Cooperation and Development
SSEZ	: Sihanouk Ville Special Economic Zone
TIFA	: Trade and Investment Framework Agreement
UNCTAD	: United Nations Conference on Trade and Development
US	: United States
USTR	: Office of the United States Trade Representative
WTO	: World Trade Organization
PwC	: Price Waterhouse Coopers



# CHAPTER I: INTRODUCTION

## 1.1. General Background

Trade war is a war of monetary warfare of two or more countries.<sup>1</sup> When nations assault one another's with tariffs and quotas on bring in, it is where trade war take place. The adverse of protectionism is also related to protectionism. This kind of monetary warfare is normally lighted up when one nation lifts tariffs, i.e. a duty that is enforced on imported goods made oversea. The purpose of lighting up a duty on goods is to make it high-priced and make country people buy it less. When imported goods have a high-price, local people would choose to buy the local goods, which cost less, and this kind of action help to promote local economy.<sup>2</sup>

According to data from the International Monetary Fund (IMF), these days the two largest economies countries in our globe are the US and China.<sup>3</sup> PwC Global forecasted that in 2050 the US's economy will be dominated by China's economy.<sup>4</sup> China is the third trading country of the US export, meanwhile China is the largest trading partner of US import.<sup>5</sup> According to WORLD TRADE ORGANIZATION (WTO), since 29 July, 2016 there are 164 members of WTO membership, and both the US and China are also member of WTO, so they have the same trade policy.<sup>6</sup>

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<sup>1</sup> 2020, "What Is Trade War," WebFinance Inc, <http://www.businessdictionary.com/definition/trade-war.html>, Accessed July 04, 2020

<sup>2</sup> Havráneková Michaela and Tomáš Dvorshý, 2019, "Policy Paper," The United States-China Trade War . Accessed July 04, 2020.

<sup>3</sup> The International Monetary Fund, 2020, "IMF Country Information," <https://www.imf.org/en/countries>, Accessed July 04 , 2020.

<sup>4</sup> John Hawksowrth, n.d., "The World in 2050," PWC, <https://www.pwc.com/gx/en/issues/economy/the-world-in-2050.html>, Accessed July 04, 2020.

<sup>5</sup> Alanna Petroff, Ivory Sherman , and Tal Yelin, 2017, "These are America's top trading partners," December, Accessed July 04 , 2020.

<sup>6</sup>World Trade Organization, n.d., "Members and Observers," [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm), Accessed July 04 , 2020.

In July 2018, is the day which the trade war happened between US and China. The US-China Trade War initiate whereas China was enforced import duty and other trade restrictions by the US authorities, which led by President Donald Trump. The purpose of this pressure is to reform to what the US says are “unjust trade practices”. It influences Asian countries whose inventories network have been sharply associated with Chinese productions and are rely on the US marketplace as a major foreign trade terminal.<sup>7</sup> The enforcement of 25-rate tariff on bring in of 34 billion dollars of Chinese products by the US government. The coming tariffs formerly enforced on steel, automatic washing machine, aluminum and solar collectors, on July 7,2018. Shortly, the Chinese government strike back with a 25-rate tariff on bring in of US soya beans, additional farming products and wheels.<sup>8</sup> Not long enough, on September 24, 2018, another enforcement of 10-rate tariff on Chinese products, which worth 200 billion dollars by US government. At the end of 2018, rate of tariff could raise to 25-rate. Not standing still, Chinese government reacted with tariff on about 60 billion dollars of US products, simultaneously it spotted to the significant of a nice mutual commerce connection.<sup>9</sup>

## **1.2. Research Problem**

When the two largest economies countries in our globe enforced trade restriction on each other, and developed to trade war, in that time do Southeast Asia countries get a benefit from trade war to boost their economic growth? Probable event is short run, implicit inconsequential effect on American and Chinese development. Contrast to what seen through the time of Southeast Asia nations financial crisis in 1997 and the global financial crisis in 2008, the side effects on economic development in other countries involving Southeast Asia will be

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<sup>7</sup>Graham Ong-Webb, 2020, "Southeast Asian Affairs," Southeast Asia in 2019: Adjustment and Adaptation to China's Regional Impact 1-17, Accessed July 06, 2020.

<sup>8</sup>Kim, Min-hyung, 2019, "International Trade, Politics and Development," A real driver of US-China trade conflict 3 (1): 33-34, Accessed July 06, 2020.

<sup>9</sup>Xinhua. 2018, "China releases white paper on facts and its position on trade friction with U.S," Xinhuanet, Edited by Hui Lu, September 24, [http://www.xinhuanet.com/english/2018-09/24/c\\_137489664.htm](http://www.xinhuanet.com/english/2018-09/24/c_137489664.htm), Accessed July 06, 2020.

slightest and will be count for nothing. The most important and fascinating for Southeast Asia is the explicit affect over a long run.<sup>10</sup> No doubt, If Southeast Asian government persuade foreign companies and local companies to relocation from China to Southeast Asia and other marketplaces. With the prospect that the US-China trade war will probably carry on for some years to come, some specialist claim that in the medium to long run, this attempt of trade distraction and influx of overseas investing as a consequence of the trade war will provide reap profit to Southeast Asian countries.<sup>11</sup>

Two countries among other Southeast Asia countries are Vietnam and Malaysia moving to the top of getting the advantages from the effect of the US-China trade war. In the first four months of 2019, Vietnam's foreign trade products to the US raised by 29 percent. For this proof, experts diagnosed Vietnam as a major beneficiary from the effects of the tariffs enforced on China by the US. In the first five months, Chinese buys in from the US for liquid petroleum (LPG) and iron mineral, and dressed ore drooped-off to cipher. Simultaneously, Chinese buys in liquid petroleum gas (LPG) from Malaysia raised 624 per cent year-on-year. As a consequence, experts also diagnosed Malaysia being a champion from the tariffs enforced on the US by China. Other Southeast Asia countries such as Cambodia, Laos and Myanmar also marked as countries earning in foreign trade to the US due to the tariffs enforced on China by the US. Electric-discharge lamp, bulb, gum rubber and ethylene glycol polymers were among the products that marked as the major raised in foreign trades.<sup>12</sup>

In the long run increasing the territorial chain of supply in East Asia extend to all of Asia, will earn advance potential with rough economic and political charge for the US.

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<sup>10</sup> Moeller Joergen Oerstroem , 2018, "Persective." U.S. - China Trade War: Opportunités & Risks for Southeast Asia (Yusof Ishak Institue ) (64): 1-4, Accessed July 06, 2020.

<sup>11</sup> Graham Ong-Webb, 2020, "Southeast Asian Affairs," p 1-17.

<sup>12</sup> Aseanbusiness Staff, 2019, "Asean countries benefiting from trade war: Maybank Kim Eng," The Business Times, July 10, Accessed July 10, 2020.

Southeast Asia nations will shift head towards a territorial chain of supply with regulations determined by them in conformance with their own sakes. Perhaps the largest failure over a period will be American and the largest achiever Southeast Asia.<sup>13</sup>

### **1.3. Research Objectives**

The US-China trade war is one of the monetary warfare issues in our globe between the US and China. Even though it is just a war between the US and China, but it affects to every country in our globe. At the same time, it also affects to Southeast Asia countries.

The main purpose of this research paper aims to investigate and elaborate on what are the opportunities that Southeast Asia countries have and what are the risks they face during this war.

### **1.4. Research Question**

This research paper mainly focuses on answering one significant question:

- What are the opportunities and risks, that Southeast Asia nation will face from the effect of US-China trade war?

The paper will further evaluate on 3 more sub research questions:

- What is the general overview of trade war?
- What is the roots cause of US and China trade war?
- What is the chronology timeline and negotiations process of US and China trade war?

### **1.5. Scope and Limitation of the Research**

The research will be covering on overview of the US-China trade war about its root cause and its impact worldwide, in which this impact will focus on ASEAN nation only. The

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<sup>13</sup> Moeller Joergen Oerstroem , 2018, p 64, 1-4, Accessed July 06, 2020.

exploration on the US-China trade war impact to Southeast Asia nations will be define as risk and opportunities. Therefore, this report will only provide the information regarding to the risks that Southeast Asia nations will face, and the opportunities that Southeast Asia nations can earn benefits from the impact. Furthermore, the report will not inquire into the political prospects of the intercession for it would be a complex and great deal of time case that needs to be studied further. Last but not least, for the difficulty in obtaining resources, and data through the primary data, this research will be conducted based on the secondary data.

### **1.6. Research Methodology**

This final report is generally conducted based upon secondary data, which is obtained from many reliable sources ranging from the legal documents such as IMF country information, official document from the United Nations, BBC News, South China Morning Post News, reports form legal experts, government websites, reports, journals, dissertation, prior studies, book publication, debates, case studies of some Southeast Asia nations, and other electronic sources. By researching based on these secondary data and consulting with the supervisor as well other lectures who are expert in Law of the Sea, and International Relation, our research will be proceeding to find the effective answer to our research objectives.

### **1.7. Significance of Research**

The finding of this research will play a significant contribution to the knowledge of trade war, especially the US-China trade war how it's happened and its root cause. This paper will illustrate effectively to help the readers to understand and evaluate the prior case of the US-China trade war impact for example like the impact to Southeast Asia countries. It will also helpful to understand the risks and opportunities from the US-China trade war to Southeast Asia. Besides, it will be useful for other researchers who will be having the same interests in conducting further research on the same topic. We believe that our research study will provide

some basic and understandable ground regarding the US-China trade war to younger generations, political experts, researchers, especially Cambodian people to obtain knowledge about this topic for them to further explore and contribute more to raise and spread the idea of this topic widely.

### **1.8. Structure of Research**

This report paper is organized in four chapters. The first chapter is concerned with the introduction, general background, research objectives, research question, scope and limitation, research methodology, and significant of research, literature review, structure of research. The second chapter consists of the overview of the US-China trade war. The third chapter will show the risks toward Southeast Asia nations from the US-China trade war. The fourth chapter will discuss about the opportunities toward Southeast Asia nations from the US-China trade war.

## 1.9. Literature Review

The topic **The US and China Trade War: Risk and Opportunities Toward Southeast Asia Nations** was just happened early, so the document of the US-China trade war and relate to Southeast Asia countries is quite less, and there are only some scholars who have talked and wrote the report paper of this topic.

According to Mr. Joergen Oerstroem Moeller, Associate Senior Fellow at ISEAS Yusof Ishak Institute, Singapore, Adjunct Professor at Singapore Management University and Copenhagen Business School, he wrote one journal talk about **“U.S.-China Trade War: Opportunities & Risks for Southeast Asia”**. His report is also similar to this report paper, which analyze several cases related to opportunities that Southeast Asia countries will get during the US-China trade war. The most important thing about his report, he wrote that in the short-term, the US-China trade war will provide a negative impact to Southeast Asia countries, but in the long-term Southeast Asia countries will receive a positive impact from the US-China trade war.<sup>14</sup>

According to Dr. Graham Ong-Webb, Adjunct Fellow at the S. Rajaratnam School of International Studies, Nanyang Technological University, Singapore, he wrote a journal which has title **“Southeast Asia in 2019: Adjustment and Adaption to China’s Regional Impact”**. His report mainly talking about Southeast Asia countries needed to adjust and adapt with the impact that they will face during the US-China trade war. He also mentioned that in the long run Southeast Asia will gain advantages from the trade war, and theirs economic will become stronger. Last but not least, he also wrote the Southeast Asia countries who economic rely on Chinese supply chain will have a bad impact to their economic growth.<sup>15</sup>

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<sup>14</sup> Moeller , Joergen Oerstroem, 2018, "Persective," p 1.

<sup>15</sup> Graham Ong-Webb, 2020, " Southeast Asian Affiars 2020 ," p 14.

As this report paper is not completely different from the two scholar's papers who are Mr. Joergen Orestroem Moeller and Dr. Graham Ong-Webb. This report paper mainly aims to find out risks and opportunities that Southeast Asia countries that they will face. It also provides a case study to some individually of Southeast Asia countries. This report also shows the key factors of risk that Southeast Asia countries will face, and the advantage that they can receive in the time during the US-China trade war.



## **CHAPTER II: TIMELINES AND HISTORICAL DEVELOPMENT OF US-CHINA TRADE WAR**

For this chapter, it will discuss about some information related to the general definition of trade war and the short briefing of the story due to the trade disputes of some countries and also United States itself, which used to face trade issues in their country with other nations like China and beside China. And China also had problem related to the trade among other countries. In addition, this section also provides the causes that leads US and China into trade conflict and the timelines of the trade processing between China and US. Then some brief processing of negotiation to reach the final decision of both countries from the beginning until now. More than this, some of global effects of trade war between China and United States are presented in this chapter.

### **2.1. Definition of Trade War**

Trade war is the concerning issue that there are several scholars defined its definitions in their own conception. This chapter will give some of the definitions that scholars gave to trade war.

According to Kimberly Amadeo, who is president of World Money Watch which is the company produces publications about the global economy, she stated that trade war is the practicing of a state urges tariffs on imports or quotas and other states respond back the same way of trade protectionism. International trade will decrease the rising trade war. A trade war begins anytime a state aims to shield their own domestic industry and set up jobs.<sup>16</sup> Short term, it might be effective. Tariffs are tending to provide a competitive advantage to domestic makers of that goods created. Comparing their price will be lower. Therefore, local orders of customers

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<sup>16</sup> Kimberly Amadeo, "Trade Wars and Their Effect on the Economy and You," The Balance, last modified December 7, 2019, <https://www.thebalance.com/trade-wars-definition-how-it-affects-you-4159973>, Accessed on May 1, 2020.

will be given more to them.<sup>17</sup> Then, jobs will be added as their businesses grow. In contrast, a trade war decreases jobs in the long term. It reduces economic growth for every involving country as well as causing inflation when tariffs rias up the prices of imports.<sup>18</sup>

According to Rachel Cautero, who is the retirement, investing and budget expert, she stated that “A trade war occurs when one country imparts a tariff or import restrictions or quotas on imports from another country. As a result, another country imparts tariffs and quotas of their own in retaliation. This can be detrimental to both country’s economies.”<sup>19</sup> In this term, when one nation found out the unequal trading actions of their rival nation. Imported goods are become less attractive to all consumers by politicians getting pressure from domestic trade union and it forced international policy into a trade war.<sup>20</sup>

As well as, misconception extensive advantages of free trade are the point causing trade war. A trade war is different from the activities which have done to govern imports and export, for example, sanctions. Besides of tariff, protectionist policies can be put into action by restricting on import quotas, inserting specific product standards, or enforcing government subsidies for actions to prevent outsourcing .<sup>21</sup> Other parts also can affect when the growth of trade war occurs in one part as well as uninvolving countries will affect when the trade war starts between the two countries. Alternatively, the war has harmful issues on the trading interrelationship between two counties.

On the other side, trade war delivers both advantages and disadvantages to both country’s economies and also other countries that is in relation and not in relation. According

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<sup>17</sup> Richard G. Lipsey and Colin Harbury, “First Principles of Economics,” Google Book, ed. (New York: Oxford University Press, 2004), <https://books.google.com.kh/books?id=cV0EZuJxod8C>, Chapter 20, 215, Accessed 19 May 2020.

<sup>18</sup> Amadeo, “Trade Wars on the Economy and You.” Accessed 19 May 2020.

<sup>19</sup> Rachel Cautero, “What Is a Trade War? Definition and Examples,” SmartAsset (SmartAsset, January 8, 2020), <https://smartasset.com/financial-advisor/trade-war>, Accessed 19 May 2020.

<sup>20</sup> Paul Finkelman and Donald R.Kennon, “Congress and the Emergence of Sectionalism: From the Missouri Compromise to the Age of Jackson,” Google Book, ed. Vol.9, Perspectives on the history of Congress, 1801-1877, (Ohio University Press, 2008), <https://books.google.com.kh/books?id=-khufPrnlyIC>, 70, Accessed 19 May 2020.

<sup>21</sup> James Chen, “Trade War”, Investopedia, last modified May 5,2020, <https://www.investopedia.com/terms/t/trade-war.asp>, accessed on May 20, 2020.

Rachel Cautero, provided as an example that trade war can negatively affect domestic businesses and national exports and also lift up the prices on products that consumers need and want.<sup>22</sup> Moreover, it can consequently impact on diplomatic connection of country's partnerships. In contrast, trade war is as the shield to protect domestic industries from oversea import and job building.<sup>23</sup>

All in all, according to the definition of the scholars above, we have acquired the vision that trade war is an action taken by a state using tariff or quota on import from one state or a group of states and getting back retaliation with the similar target. Furthermore, the purpose of bringing on the trade war is to protect their domestic industry and to prevent unfair trading practices of the foreign nations. Moreover, the trade war is the side effect of related countries and unrelated countries and there are several pro and con of trade war on several countries or international trade.

## **2.2. History of Trade War**

Trade wars are not a new issue that occurred in modern civilization. In the 17<sup>th</sup> century, trade war happened due to challenged one another to claimed for the rights to trade exclusively overseas of colonial powers over other colonies. In the histories of the trade war, there was some trade war existing a long time ago.

For the British Empire, it such a long story of the trade combats. We can be known in the opium war as simple in the 19<sup>th</sup> century with China. The opium produced by Indians was sent to China for years by the British when it was proclaimed to be illegal by the Chinese emperor. The aim of battle settlement has failed and the soldiers of the emperor were sent to

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<sup>22</sup> Rachel Cautero, "What is a Trade War? Definition and Examples," accessed on May 20, 2020.

<sup>23</sup>Evan Tarver, "How Do Tariffs Protect Domestic Industries?" Investopedia, last modified April 19,2020, <https://www.investopedia.com/ask/answers/042315/how-do-tariffs-protect-domestic-industries.asp>, accessed on May 21, 2020.

seize the drugs. Nevertheless, the might of the British navy dominated, and China accepted further entrance of oversea trade into the nation.<sup>24</sup>

Additionally, the US also used to face the consequences of protectionist measures in the past. Likely, international competition has been flown too many into the US which caused domestic businesses to meet a lot of issues together with turning down the prices because of overproduction. Domestic businesses strongly uphold the protectionist measures when the stock market smashed in 1929, then in 1930, **the Smoot-Hawley Tariff Act** was signed up by President Hoover.<sup>25</sup> First, the original tariff was arranged to cover the agricultural industry, yet President Hoover extended the tariff over other sectors. Sarah said that “Overall, the Smoot-Hawley Tariff Act raised tariffs on more than over 20,00 imported products by an average of 20 percent.”<sup>26</sup> The purpose of the Smoot-Hawley Act was to cut down the US imports, which it achieved. The gape from 1929 to 1932, 66 percent were dropping down percentage of US imports from Europe. This measure provoked a chain reflection of protectionism all over the globe which lead more than 20 foreign nations to impose vengeance proceedings. So exports of the US were largely harmed; coming to the act, the export of US decreased from \$5.2 billion in 1929 to \$1.7 billion in 1933, a surprising loss.<sup>27</sup> She mentioned that “The agricultural sector, which Smoot-Hawley was originally designed to protect, was hit especially hard.” Even if it was created to advantage the US, as the result of the Smoot-Hawley Act was eventually to make worse the severe economic pain of the Great Depression. The enforcement of higher tariffs on

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<sup>24</sup> Ibid

<sup>25</sup> Andrew Glass, 2014, “Hoover Signs Smoot-Hawley Act, June 17, 1930,” June 06, <https://www.politico.com/story/2014/06/this-day-in-politics-herbert-hoover-smoot-hawley-act-107908>, Accessed May 05, 2020.

<sup>26</sup> Alan Reynolds, 2016, “The Smoot-Hawley Tariff and the Great Depression.” May 07, <https://www.cato.org/blog/smoot-hawley-tariff-great-depression>, Accessed May 05, 2020.

<sup>27</sup> Office of the Historian, Foreign Service Institute, n.d, “Protectionism in the Interwar Period,” <https://history.state.gov/milestones/1921-1936/protectionism>, Accessed May 05, 2020.

import products brought about retaliatory barriers to other trade sectors of the world as well, including ‘poison to the emptying well of global trade,’ as the Economist put it.<sup>28</sup>

### **2.3. The Roots Cause of Trade War Between US and China**

It’s been seriously sign of the fundamental issues in the US-China tariff trade war since the beginning of 2018. But before the election, “President Donald Trump made an aggressive promise on federal finances: He would eliminate the budget deficit within eight years.”<sup>29</sup> According to the Fox Business, when the trade deficit rising high which hit to \$365.7 billion in 2015, Trump said that “we can’t continue to allow China to rape our country,” Therefore, during in 2016 presidential campaign that Trump as a candidate, he exploded US-China trade policy and used tariffs to decrease the US trade deficit.<sup>30</sup> Moreover, Trump vowed to reduce US trade deficit due to much of China’s unfair trade practices such as “intellectual property theft, forced technology transfer, lack of market access for American companies in China and an unlevelled playing field caused by Beijing’s subsidies for favoured Chinese companies”<sup>31</sup> However, while the US charged China as an unfair practicing partner on trade, there is an argument apparently that the trade rising of China was the threat of the US.<sup>32</sup> The total deficit was about 46 percent by 2017 which was the main cause of US with China. The US national debt trouble and public dissatisfaction in the US were affected by the trade imbalance which drove the US government to carry on a trade war opposed to China.<sup>33</sup>

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<sup>28</sup> Sarah Pavlak, “A Short History of Trade Wars,” China Business Review, last modified May 24, 2018, <https://www.chinabusinessreview.com/a-short-history-of-trade-wars/>, accessed on May 21, 2020.

<sup>29</sup> Shane Croucher, “Donald Trump Promised to Eliminate the Deficit in 8 Years. So Far, He Has Increased it by 68%,” Newsweek, 2019, <https://www.newsweek.com/trump-deficit-debt-cbo-data-obama-1463802>, Access on May 22, 2020.

<sup>30</sup> Evie Fordham, “What Started the US and China Trade War?,” Fox Business, 2019, <https://www.foxbusiness.com/markets/us-china-trade-war-trump-xi>, Access on May 22,2020.

<sup>31</sup> SCMP Reporters, “What Is the US-China Trade War?,” April 13, 2020, <https://www.scmp.com/economy/china-economy/article/3078745/what-us-china-trade-war-how-it-started-and-what-inside-phase>, Access on May 22, 2020.

<sup>32</sup> Chi Hung Kwan, “The China–US Trade War: Deep- Rooted Causes, Shifting Focus and Uncertain Prospects,” *Asian Economic Policy Review* 15, no. 1 (2019), <https://doi.org/10.1111/aepr.12284>, p 02. Access on May 22, 2020

<sup>33</sup> Terence Tai-leung Chong and Xiaoyang Li, “Understanding China-US Trade War: Causes, Economic Impact, and the Worst-Case Scenario,” February 2019, <https://doi.org/10.1080/20954816.2019.1595328>, p. 14.

According to the scholars named Laria Kapustina, Lúdmila Lipkova, Yakov, and Andrei Drevalev uttered that,

*“The authors identify four main reasons that led to the greatest trade conflict between the two economies in history associated with intentions of the US: a) to reduce the deficit of bilateral trade and increase the number of jobs; b) to limit access of Chinese companies to American technologies and prevent digital modernization of the industry in the PRC; c) to prevent the growth of China’s military strength; and d) to reduce the federal budget deficit.”<sup>34</sup>*

Furthermore, US concerned on three main matters due to imitate the trade war including (A) the concernment that the occupation conception in the US was distressing by the China’s sequential humorous trade superabundance, (B) the concernment that the process of using unlawful process by China to gained the US high-tech an efficaciously reduced price; and (C) the concernment that the US was looked for the weak spot of the US national defense and its overseas standing by China. The first decision on the conflict over China’s conversion rate and trade inequality is that it was noticed by rational mix-up over the sense of the term ‘balance of conversion rate’.<sup>35</sup>

According to the speech of President Donald Trump in his inaugural address as the 45<sup>th</sup> President of the United States said that

*“We assembled here today are issuing a new decree to be heard in every city, in every foreign capital, and in every hall of power. From this day forward, a new vision will govern our land. From this day forward, it’s going to be only America first. America first. Every decision on trade, on taxes, on immigration, on foreign affairs will be made to benefit American workers and American families. We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength. I will fight for you with every breath in my body and I will never ever let you down.”<sup>36</sup>*

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<sup>34</sup> Larisa Kapustina et al., “US-China Trade War: Causes and Outcomes,” *SHS Web of Conferences* 73 (2020), <https://doi.org/10.1051/shsconf/20207301012>, 01.

<sup>35</sup> Tao Liu and Wing Thye Woo, “Understanding the US-China Trade War,” 2018, <https://doi.org/10.1080/17538963.2018.1516256>, 01.

<sup>36</sup> CNN, “Trump: America First and Only America First,” January 2017, <https://www.youtube.com/watch?v=dIaoZqMrbCo>, accessed on May 22, 2020.

As a result, unilateral decisions on raising import tariffs of the United States of America on specific colleagues specifically China has challenged the multilateral trading system since the beginning of 2018.<sup>37</sup>

#### **2.4. US-China Trade War Timeline and Process of Negotiation**

In this point, US and China trade war was point out to start during the imbalance deficit of US with China which was around \$346 billion in 2016, and tariffs is the strategy to shot in bilateral tensions to reform the trade over the unfair practice of China with the American first policy of Trump. Therefore, in this page will describe the whole trade dispute process between US and China which it has three sections starting from the beginning of 2018 until the beginning of 2020 before the pedemic of COVID 19 has strongly raised and this point also include the process of both countries' negotiations in each stages until they reached 'Phase One' agreement.

##### **❖ Section 1**

1. The first major trade war action against China comes at January 2018 on solar panels and washing machines:
  - **January 22, 2018:** President Trump confirms global safeguard tariffs on imports of solar panels (worth \$8.5 billion) washing machines (worth \$1.8 billion) due to US International Trade Commission discovers the effective on the US solar panel and washing machine industries.<sup>38</sup> It is the first battle of US and China. In return, China is disappointed on the action of imposing tariffs on solar panels and washing machines of presidential Trump. Moreover, the Chinese Commerce Ministry showed “strong dissatisfaction” on this decision, which claimed it “aggravates the

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<sup>37</sup> Monique Carvalho, André Azevedo, and Angélica Massuquetti, “Emerging Countries and the Effects of the Trade War between US and China,” *Economies* 7, no. 2 (2019), <https://doi.org/10.3390/economies7020045>, p 01. accessed on May 22, 2020.

<sup>38</sup> Chad P. Bown and Melina Kolb, “Trump’s Trade War Timeline: An Up-to-Date Guide,” March 2020, <https://www.pii.com/blogs/trade-investment-policy-watch/trump-trade-war-china-date-guide>, accessed on 7, August, 2020.

global trade environment.” The ministry stated in a statement that “China hopes the US will exercise restraint in using trade restrictions,” and altering that China will “resolutely defend its legitimate interests.”<sup>39</sup>

- **February 05, 2018:** China proclaimed government investigation that could apply “antidumping and countervailing duty” on US export of Sorghum roughly \$1 billion.<sup>40</sup>
  - **February 07, 2018:** US Implement of impose a 30 percent on all imported solar panel and 20 percent tariff on washing machine in the first year, then decline in following years.
2. The Second trade war action against China on Steel and Aluminum as national security:
- **February 16, 2018:** US considers tariff on imports of steel and aluminum due to the Department of Commerce reported it threaten US national security under section 232. On March 08,2020 under section 232, Trump declared tariffs of 25 percent on steel and 10 percent on aluminum for all trading partners imports (worth \$48 billion), but imports from China contribute only 6 percent. The implement will be effect on March 23. Exception can be negotiation with US Trade Representative (USTR).<sup>41</sup> This is the battle two on trading tariff of US and China.
  - **March 22, 2018:** the US liberated report of China unfair trade under section 301 of the Trade Act of 1974, such as techno logy transfer, intellectual property and innovation. Trump planned to remedy of tariffs on Chinese goods that worth up to

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<sup>39</sup> Jethro Mullen, “China Blasts Trump’s New Trade Tariffs,” 2018, <https://money.cnn.com/2018/01/22/news/economy/trump-trade-tariffs-china-reaction/index.html>, accessed on 7, August, 2020.

<sup>40</sup> Chad P. Bown, “China’s Latest Trade Maneuver Is Worrying,” February 2018, <https://www.piie.com/commentary/op-eds/chinas-latest-trade-maneuver-worrying>, accessed on 7 August, 2020.

<sup>41</sup> Chad P. Bown and Melina Kolb, “Trump’s Trade War Timeline: An Up-to-Date Guide,” 03.



\$60 billion.<sup>42</sup> This is the battle three between US and China. However, on the same day, China responds to pronounce a plan of tariffs on US imports from steel to pork worth \$3 billion.<sup>43</sup> Next day, US implements tariff on all steel and aluminum imports.

- **April 02, 2018:** China Retaliated: After US increased tariffs on oversea steel and aluminum imports in March, China implemented tariffs on US imports up to 25 percent on 128 goods. And, on the top of existing tariffs, China also imposes a 25 percent additional tariff on US scrap aluminum and frozen pork, 15 percent on US foods such as nuts, fresh and dried fruit, ginseng and wine then 15 percent rise in tariffs on rolled steel bars.<sup>44</sup>
- **Leading Events to Trade War**
  - **April 03, 2018** US threatens tariffs: The list of 1,333 Chinese goods worth \$50 billion was released through Trump administration was beneath deliberation for 25 percent tariffs, which buried \$46.2 billion of US imports. The machinery, mechanical appliances, and electrical equipment were the highest parts crash. The costs in US companies' supply chains will raise while the imports targeted (around 85percent) with the tariffs are in the intermediate inputs and capital products.<sup>45</sup>
  - **April 04, 2018** China threatens retaliation to USTR: The reaction of China on proposing of 25 percent tariffs on 106 goods including soybeans, automobile, and chemicals which worth \$50 billion will be impose on June 16, after the USTR's

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<sup>42</sup> Ibid, 07.

<sup>43</sup> Li Liu, 2018, "China plans reciprocal tariffs on US\$3B of American imports," March 22, <https://www.bnnbloomberg.ca/china-plans-tariffs-on-us-3b-of-american-products-1.1035447>, Accessed June 7, 2020.

<sup>44</sup> CNN, 2018, "China hits back with tariffs on US imports worth \$3bn," April 2, <https://www.bbc.com/news/world-asia-43614400>, Accessed June 7, 2020.

<sup>45</sup> Chad P. Bown and Melina Kolb, "Trump's Trade War Timeline: An Up-to-Date Guide," 07.

initial list. Next day, US reflects back to consider additional \$100 billion tariffs on imports from China.<sup>46</sup>

- Continually, on **April 16, 2018**, US government prohibits companies from working with Chinese telecom company ZTE for seven years because US Department of Commerce assumes ZTE violated US sanction. On the following day, China pronounces 178.6 percent of antidumping tariffs on sorghum of US imports.<sup>47</sup>
- **May 3-7, 2018**: Negotiation between US and China: “US-China engage in trade talks in Beijing, where the US demands that China reduce the trade gap by US\$200 billion within two years. Talks end with no resolution.”<sup>48</sup>
- **May 13, 2018**: Trump writes in a tweet that he vows to help ZTE. On the other side, on May 18, China’s Commerce Ministry declares to end duties on US sorghum at negotiations. Furthermore, on May 20, 2018, “put the trade war on hold” is an agreement of US and China when China accepts to purchase more US products.<sup>49</sup> However, “US reinstates tariff plans after brief truce,” which announces on May 29, 2018.<sup>50</sup>
- On **June 4-5, 2018**: therefore, negotiation between US and China within two days about trade talk is taken in Beijing.<sup>51</sup> After negotiation, there are some actions of

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<sup>46</sup> *ibid*

<sup>47</sup> WTO, 2019, “The US-China Trade War: A Timeline,” March 1, <http://wtocenter.vn/chuyen-de/13504-the-us-china-trade-war-a-timeline>, Accessed June 7, 2020.

<sup>48</sup> *ibid*

<sup>49</sup> *ibid*

<sup>50</sup> The White House, 2018, “President Donald J. Trump is Confronting China’s Unfair Trade Policies,” May 29, <https://www.whitehouse.gov/briefings-statements/president-donald-j-trump-confronting-chinas-unfair-trade-policies/>, Accessed June 7, 2020.

<sup>51</sup> The White House, 2018, “Readout of Discussions between Administration Officials and a Delegation from China Regarding the Trade Relationship between the United States and China,” June 4, <https://www.whitehouse.gov/briefings-statements/readout-discussions-administration-officials-delegation-china-regarding-trade-relationship-united-states-china/>, Accessed June 7, 2020.

both countries. According to Dorcas Wong and Alexander Chipman Koty, stated that:

*“June 7, 2018: US and ZTE agree to deal that will allow ZTE to resume business.*

*June 15, 2018: Initial list of products reduced and finalized. List 1 now implements a 25 percent tariff on a reduced 818 products (from 1,334) and is set to take effect on July 6, 2018. List 2 of 284 new products is also announced and under consideration.*

*June 16, 2018: China revises its initial tariff list (25 percent on 106 products) to now include a 25 percent tariff on 545 products (valued at US\$34 billion). This tariff will take effect July 6, 2018. China also proposes a second round of 25 percent tariffs on a further 114 products (valued at US\$16 billion).”<sup>52</sup>*

- **The Negotiation Process Leading to Second Round**

During the negotiation of this round, the demands list of US is to reduce the US’s trade gap with China by \$200 billion within the next two years and to end of subsidizing into leading of Chinese manufacturing zones, end cyber spying on the US private enterprise system, confirm the enforcement of import and investment on technology without revenge, enhance intellectual property right, reduce tariff from 10 to 3.5 percent for all sectors except religious, accept for American contesting on servicing and farming, and in 12 months the US want Chinese to deduct \$100 billion on trade leftover. While the China demands US to reduce enforcement on technology commercial foreign trade and bring the ZTE issue into the trade talk.<sup>53</sup>

However, according to The New York Times, stated that

*“The extensive list of United States trade demands was unexpectedly sweeping, and showed that the Trump administration has no intention of backing down despite Beijing’s assertive stance in the last few days. ‘The list reads like the terms for a surrender rather than a basis for negotiation,’ said Eswar Prasad, an economics professor at Cornell University.”<sup>54</sup>*

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<sup>52</sup> Dorcas Wong, and Alexander Chipman Koty, 2020, “The US-China Trade War: A Timeline,” July 22, <https://www.china-briefing.com/news/the-us-china-trade-war-a-timeline/>, Accessed June 9, 2020.

<sup>53</sup> Keith Bradsher, 2018, “U.S.-China Trade Talks End With Strong Demands, but Few Signs of a Deal,” May 4, <https://www.nytimes.com/2018/05/04/business/china-us-trade-talks.html>, Accessed June 9, 2020.

<sup>54</sup> *ibid*

Both China and US have some relaxing restriction on each other as express upper after they have been negotiation, even US reduces the products on list 1, but US initially announce to impose this tariff. Therefore, China also reacted back with its own tariff after US released it to take effect on July 6. China also stated if the US impose tariff, all the result of the trade negotiations will have no impact at all.<sup>55</sup> However, US responded that the plans of \$50 billion tariffs on China imports was just to change the unfair practices of china but the intention of china hasn't change due to it defined back the tariff of US exports. So the new tariffs that have been claimed will take into effect if china rejects to change their action and the additional tariffs on \$200 billion will continue if China still raise the tariffs again.<sup>56</sup> According to Reuters Business News, stated that "China will fight back firmly with "qualitative" and "quantitative" measures if the United States publishes an additional list of tariffs on Chinese goods, the commerce ministry said, accusing the U.S. of initiating a trade war."<sup>57</sup> This is the result that lead both China and US into the second round of trade war which started to impose the tariffs which both sides have been announced.

## ❖ Section 2

- **July 06, 2018:** US starts to impose tariffs on China products, which were revised and pronounced on June 15, 2018. A 25 percent tariff on 818 goods (list1) imported from China about US\$34 billion was started gathering through the US Customs and Border Protection (CBP). Meanwhile, list 2 has 284 Chinese goods about US\$16 billion

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<sup>55</sup>Evelyn Cheng, 2018, "How the US ended up in an escalating trade dispute with China," June 19, <https://www.cnbc.com/2018/06/19/how-the-us-ended-up-in-an-escalating-trade-dispute-with-china.html>, Accessed June 9, 2020.

<sup>56</sup> The White House, 2018, "Statement from the President Regarding Trade with China," June 18, <https://www.whitehouse.gov/briefings-statements/statement-president-regarding-trade-china-2/>, Accessed June 9, 2020.

<sup>57</sup> Sam Holmes, ed, 2018, "China says will 'fight back firmly' if U.S. publishes additional tariffs," June 19, <https://www.reuters.com/article/us-usa-trade-china-tariffs/china-says-will-fight-back-firmly-if-u-s-publishes-additional-tariffs-idUSKBN1JF07C>, Accessed June 9, 2020.

including iron, steel products, electrical machinery, railway products, instruments and apparatus, it was discussed to review on this round.<sup>58</sup> In response, China alleged the US of beginning the ‘largest trade war in economic history’. Immediately, the retaliation of China toward the US is placing a 25% duties on 545 US goods around US\$34 billion including agricultural products, automobiles and aquatic goods.<sup>59</sup>

- **July 10, 2018:** USTR started to declare 10% tariffs on China products worth \$200 billion tariffs. However, on August 1, the tariffs on Chinese imports worth \$200 billion was revised to raise from 10 to 25 percent by the ordering from Trump to USTR.<sup>60</sup> In response on August 3, China’s Ministry of Commerce threatens an additional tariffs on 5, 207 US goods which worth \$60 billion such as 25% on 2,493 goods, 20% on 1,078 goods, 10% on 974 goods, and 5% on 662 goods.<sup>61</sup>
- **August 7, 2018:** USTR revealed the final list of 25 percent additional tariffs on Chinese imports worth \$16 billion which is the responding on unfair trade practices of China due to the enforced transmit the US high tech and intellectual property and it takes effect on August 23.<sup>62</sup> The reaction of China was to claim back a 25 percent additional levies on US products which worth \$16 billion and it also effects on August 23, 2018.<sup>63</sup>
- **August 22-23, 2018:** US and China have a dialogue meeting which have mid-level representatives including Vice Minister of Commerce Wang Shouwen as a Chinese side and Treasury Under Secretary for International Affairs David Malpass as US side and

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<sup>58</sup> Dorcas Wong, and Alexander Chipman Koty, 2020. “The US-China Trade War: A Timeline,” Accessed June 9, 2020.

<sup>59</sup> CNN, 2018, “China hits back after US imposes tariffs worth \$34 bn,” July 6, <https://www.bbc.com/news/business-44707253>, Accessed June 9, 2020.

<sup>60</sup> Reuters, 2019, “Timeline: Key dates in the U.S.-China trade war,” August 10, <https://www.reuters.com/article/us-usa-trade-china-timeline-idUSKCN1UZ24U>, Accessed June 9, 2020.

<sup>61</sup> WTO, 2019, “The US-China Trade War: A Timeline,” Accessed June 9, 2020.

<sup>62</sup> USTR, 2018, “USTR Finalizes Second Tranche of Tariffs on Chinese Products in Response to China’s Unfair Trade Practices,” August 7, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/august/ustr-finalizes-second-tranche>, Accessed June 9, 2020.

<sup>63</sup> Dorcas Wong, and Alexander Chipman Koty, 2020, “The US-China Trade War: A Timeline,” Accessed June 10, 2018.

it is the discussion in order to solve the growing of tariffs between them.<sup>64</sup> However, there is no major breakthrough after the discussion ended. From the last negotiation in June until this discussion, their position on its own demand haven't changed. US has a trade accusation to China about intellectual property and market enter restrictions, then to cut back China program on "Made in China 2025", which it led China a world leader in technology zones. But China has no intend to reform their root economic program; for instance, China planned to reduce US deficit through rising the US imports and dropping down several market barriers. Indeed, US was carrying hearings tariffs for next session even during the meeting of Wang and Malpass.<sup>65</sup> So, the tariff war of both countries still continues.

- **August 23, 2018:** the second round tariff of US worth \$16 billion on 279 Chinese products (list 2) were put into action including semiconductors, chemicals, plastics, motorbikes and electric scooters.<sup>66</sup> In response, based on Ministry of Commerce of China stated that "The United States insisted on going its own way, imposing 25% tariffs on US\$16 billion products imported from China and China is firmly opposed to this and has to continue to make the necessary counterattack."<sup>67</sup> Later on, US using another tariffs to threaten China which is \$267 billion worth behind the additional \$200 billion

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<sup>64</sup> Michal Martina, and David Lawder, 2018, "China, U.S. to hold lower-level trade talks in late August," August 16, <https://www.reuters.com/article/us-usa-trade-china/china-u-s-to-hold-lower-level-trade-talks-in-late-august-idUSKBN1L1058>, Accessed June 10, 2020.

<sup>65</sup> Shannon Tiezzi, 2018, "Latest US-China Trade Talks End with a Whimper," August 25, <https://thediplomat.com/2018/08/latest-us-china-trade-talks-end-with-a-whimper/>, Accessed June 10, 2020.

<sup>66</sup> Huileng Tan, 2018, "Beijing retaliates as new US tariffs kick in on \$16 billion of Chinese goods," August 22, <https://www.cnn.com/2018/08/23/us-china-trade-war-new-round-of-american-tariffs-on-chinese-imports.html>, Accessed June 10, 2020.

<sup>67</sup> Ministry of Commerce News Office, 2018, "The spokesperson of the Ministry of Commerce made a statement on the U.S. taxation of US\$16 billion on Chinese products," August 23, <http://www.mofcom.gov.cn/article/ae/ag/201808/20180802778486.shtml>, Accessed June 10, 2020.

on September 7, 2018 and this is the move for Trump's need to change in economic, trade and technology policy. But the retaliation of China still continues.<sup>68</sup>

- **September 17, 2018:** USTR proclaims the initial 10 percent of tariffs list worth \$200 billion on Chinese imports and it takes effect on September 24. Then, the rate of duties will rise to 25 percent by January 1, 2019. The following day, if Trump go forward with his tariffs list on \$200 billion, China also releases the final tariffs plan on \$60 billion to place on US imports with the range from 5 to 10 percent.<sup>69</sup> According to Office of the USTR, stated that:

*“Unfortunately, China has been unwilling to change its policies involving the unfair acquisition of U.S. technology and intellectual property. Instead, China responded to the United States’ tariff action by taking further steps to harm U.S. workers and businesses. In these circumstances, the President has directed the U.S. Trade Representative to increase the level of trade covered by the additional duties in order to obtain elimination of China’s unfair policies. The Administration will continue to encourage China to allow for fair trade with the United States.”<sup>70</sup>*

- **September 24, 2018:** The third round of tariffs of 10% on \$200 billion was imposed by US. In return, the US imports worth \$60 billion were imposed as the retaliation of China.<sup>71</sup>

- **The Negotiation Process Leading to Third Round**

After the several weeks of silence, US and China officially restart the meeting on G20 meetings in Argentina for Trump and Xi. However, the US will release the tariffs \$257 billion if the talks between Trump and Xi are not successful. After the G20 summit on December 1,

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<sup>68</sup> Steve Holland, and David Lawder, 2018, “Trump ups ante on China, threatens duties on nearly all its imports,” September 7, <https://www.reuters.com/article/us-usa-trade-china/trump-ups-ante-on-china-threatens-duties-on-nearly-all-its-imports-idUSKCN1LN1TH>, Accessed June 11, 2020.

<sup>69</sup> WTO, 2019, “The US-China Trade War: A Timeline,” Accessed June 11, 2020.

<sup>70</sup> USTR, Office, 2018, “USTR Finalizes Tariffs on \$200 Billion of Chinese Imports in Response to China’s Unfair Trade Practices,” September 18, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/ustr-finalizes-tariffs-200>, Accessed June 11, 2020.

<sup>71</sup> Reuters, 2019, “Timeline: Key dates in the U.S.-China trade war,” Accessed June 11, 2020.

2018, the US confirmed that it will not increase pressure on trade tariffs from 10 to 25% for 3 months on \$200 billion of Chinese products until 1 January. At the same time, China also confirmed that it still buying US farming, industrialized, and generated power products.<sup>72</sup> Moreover, US and China has another one meeting which take part for 3 day in Beijing on January 7-9 after the agreement on 90 day truce ends. In the meeting, the view of US and China were to reach on the changing of China structural with regard enforcement technology transmit, intellectual property rights, non-tariff blockade, high tech invasion and US private enterprise trade system, services, and farming. Furthermore, the other purpose is to aim China to buy US farming, industrialized, and generated power products. But there're still reminding problems, so both competitors have decided to extend to carry the contact.<sup>73</sup> Next meeting is in Washington D.C. on January 30-31, which is about the offering of China to buy 5 million ton of soybeans from US. Then in Beijing on February 11-15, the negotiators of US have meet President Xi but as the result both US and China still have a couple key differences in statement that lead them to have more negotiations.<sup>74</sup> However, according to South China Morning Post, on May 9, 2019 in the 11<sup>th</sup> round of the last US-China negotiations that US demanded China to access internet to all area in China, but China approve to access for only some area, a whole area is impossible. Another requirement, China must rias the US imports around US\$100 billion per year, but China needed time to fill this requirement because it's hard to do it immediately. Next request, US wants all the banning on technology exports to China staying the same, and aside of Chinese imports such as farming goods, and energy products which will be stay at the limited options. Moreover, "the US negotiators demanded to have a monitoring mechanism to

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<sup>72</sup> BBC, 2018, "US-China trade war: Deal agreed to suspend new trade tariff," December 2, <https://www.bbc.com/news/world-latin-america-46413196>, Accessed June 11, 2020.

<sup>73</sup> USTR, Office, 2019, "Statement on the United States Trade Delegation's Meetings in Beijing," January 1, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade>, Accessed June 11, 2020.

<sup>74</sup> WTO, 2019, "The US-China Trade War: A Timeline," Accessed June 11, 2020.



track and verify progress, and wanted it to be stipulated in the final agreement that the US could impose tariffs on Chinese products if it was not satisfied with developments. Some Chinese laws would also need to be rewritten to accommodate the demands.” All of these demanding cannot acceptable for China party.<sup>75</sup> Therefore, on May 9, the eleventh round of high-level trade talks has been failing to reach requirement, which lead Trump said that “China broke the deal” in the process of the US-China trade talks Trump also said “won’t back down until China stops cheating our workers and stealing ours jobs”.<sup>76</sup> As the result on May 9, 2019 the US start to raise the tariff and has effect immediately after 12:01 AM (EDT) time on May 10,2019, which tariff was on 200\$ billion of goods value, that raise tariff from 10 to 25 percent on imported Chinese products, known as list 3 goods.<sup>77</sup>

### ❖ Section 3

- On **May 10, 2019**: the 25 percent tariffs of US on Chinese products worth \$200 billion (list 3) got into effective. In return on May 13, China released the retaliation tariffs plan on US imports approximately \$60 billion worth, which will enter into force on June 1. However, US started announcing the new levies value \$300 billion of imports from China which almost cover all cargo from China.<sup>78</sup>
- The next action on **May 16** is about the announcement of US Department of Commerce to put Huawei on its “entity”, which is without US authority ratification Huawei was

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<sup>75</sup> Zhou Xin, and Wendy WU, 2019, “Was this the moment US-China trade talks fell apart?,” May 28, <https://www.scmp.com/news/china/diplomacy/article/3012049/was-moment-us-china-trade-talks-fell-apart>, Accessed June 11, 2020.

<sup>76</sup> Everett Rosenfeld, 2019, “Trump: China ‘broke the deal’ in trade talks,” May 9, <https://www.cnbc.com/2019/05/09/trump-on-new-trade-war-tariff-threat-china-broke-the-deal-in-talks.html>, Accessed July 30, 2020.

<sup>77</sup> Travis Sandler, and Rosenberg Trade Report, 2019, “Tariff Increase on Imports from China Set for May 10; Exclusion Process Coming,” May 9, <https://www.strtrade.com/news-publications-China-301-tariff-increase-exclusion-USTR-050919.html> Accessed July 30, 2020.

<sup>78</sup> Gina Heeb, 2019, “China fires back at the US with higher tariffs on thousands of American products,” May 13, [https://markets.businessinsider.com/news/stocks/trade-war-china-places-new-tariffs-on-us-goods-2019-5-1028194689?utm\\_source=markets&utm\\_medium=ingest?utm\\_source=markets&utm\\_medium=ingestutm\\_source=msn.com&utm\\_medium=referral&utm\\_content=msn-slideshow&utm\\_](https://markets.businessinsider.com/news/stocks/trade-war-china-places-new-tariffs-on-us-goods-2019-5-1028194689?utm_source=markets&utm_medium=ingest?utm_source=markets&utm_medium=ingestutm_source=msn.com&utm_medium=referral&utm_content=msn-slideshow&utm_), Accessed June 13, 2020.

banned from buying items and pieces from US enterprise.<sup>79</sup> In retaliation to US entity list, China created unreliable entities which is to ban oversea companies, association, and individual that “do not obey market rules, violate contracts, and block, cut off supply for non-commercial reasons, or severely damage the legitimate interests of Chinese companies.”<sup>80</sup>

- **June 1, 2019**, the China tariffs on US imports worth \$60 billion are in effect now. A couple weeks later, on June 18, both Trump and Xi agree to have a trade talk in person on the sidelines of G20 Summit in Osaka on June 28 and 29. But, Trump plans to place the remaining tariffs worth \$300 billion based on result after trade talk.<sup>81</sup> Then, they confirmed on the temporary ceasefire on their trade conflict before the G20 summit in Osaka.<sup>82</sup>
- After the negotiation on G20 summit in Osaka on June 29, US and China allow to not increasing the new tariffs compete each other's goods. And Trump proposed the relaxing on the banning of on Huawei and he suggest China to accept buying a large amount of US agriculture products immediately but China hasn't confirmed it officially. Trump added that “We discussed a lot of things and we're right back on track,” and “We'll see what happens.”<sup>83</sup>

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<sup>79</sup> Pimental, Benjamin. 2019. *Trump's Huawei ban could spark a tit-for-tat fight with Beijing that puts Apple in the crossfire*. May 16. Accessed June 13, 2020. [https://www.businessinsider.com/ban-on-huawei-could-could-hurt-us-tech-giants-apple-2019-5?utm\\_source=markets&utm\\_medium=ingest](https://www.businessinsider.com/ban-on-huawei-could-could-hurt-us-tech-giants-apple-2019-5?utm_source=markets&utm_medium=ingest).

<sup>80</sup> Dorcas Wong, and Alexander Chipman Koty, 2020, “The US-China Trade War: A Timeline,” Accessed June 13, 2018.

<sup>81</sup> Owen Churchill, “2019. Donald Trump ‘probably planning’ for tariffs on all Chinese goods after G20,” June 6, <https://www.scmp.com/news/china/politics/article/3013484/donald-trump-probably-planning-tariffs-all-chinese-goods-after>, Accessed June 13, 2020.

<sup>82</sup> Reuters, 2019, “U.S., China agree tentative trade truce ahead of G20 summit: SCMP,” June 27, <https://www.reuters.com/article/us-usa-trade-china-truce/u-s-china-agree-tentative-trade-truce-ahead-of-g20-summit-scmp-idUSKCN1TS0AZ>, Accessed June 13, 2020.

<sup>83</sup> David J. Lynch, and Damian Paletta, 2019, “U.S. and China agree to restart trade negotiations following meeting between Trump and Xi at Group of 20 summit,” June 30, [https://www.washingtonpost.com/business/economy/trade-war-hangs-in-balance-as-trump-and-xi-finally-meet/2019/06/28/bb065eb2-9a02-11e9-830a-21b9b36b64ad\\_story.html](https://www.washingtonpost.com/business/economy/trade-war-hangs-in-balance-as-trump-and-xi-finally-meet/2019/06/28/bb065eb2-9a02-11e9-830a-21b9b36b64ad_story.html), Accessed June 13, 2020.

- **August 1, 2019**, US has announced 10 percent tariffs on \$300 billion on imports from China which will effect on September 1. This is the threaten of US that after the meeting according to the White House detailed about the dialogue as a “constructive” and “China side confirmed their commitment to increase purchases of US agricultural exports.” So they will have another negotiations.<sup>84</sup> However, China’s Ministry of Commerce stated to halt buying American farming goods because China knew it is the intentional of the US imposing additional tariffs on \$300 billion, which is “a serious violation of the Osaka meeting between China and US heads of state.”<sup>85</sup> Moreover, on august 23, China released the new tariffs on US products worth \$75 billion and restarted levies on American autos from 5 to 10 percent in two bunches in use at September 1 and December 15. This is the retaliation after US announcement tariffs on \$300 billion. But Trump declared that “China didn’t follow through on Xi’s promise to resume purchases of farm products.” And the remaining tariffs on \$250 billion of US over Chinese products would be raised from 25 to 30 percent on October 1, 2019.<sup>86</sup>
- **September 1, 2019**: US started to gather the 15% tariffs on China imports worth \$125 billion (list 4). Therefore, in turn, the list tariffs of China on US products worth \$75% billion began to take into effective. According to Reuters, stated Trump’s statement that “We are talking to China, the meeting is still on,” and “We’ll see what happens, but we can’t allow China to rip us off anymore as a country.”<sup>87</sup>

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<sup>84</sup> The White House, 2019, “Statement from the Press Secretary,” July 31, <https://www.whitehouse.gov/briefings-statements/statement-press-secretary-71/>, Accessed June 13, 2020.

<sup>85</sup> Ministry of Commerce News Office. 2019. Related Chinese companies suspend new purchases of U.S. agricultural products. August 6. Accessed June 13, 2020. <http://www.mofcom.gov.cn/article/ae/ag/201908/20190802887951.shtml>.

<sup>86</sup> Yun Li, 2019, “China will retaliate with tariffs on \$75 billion more of US goods and resume auto tariffs,” August 23, <https://www.cnbc.com/2019/08/23/china-to-retaliate-with-new-tariffs-on-another-75-billion-worth-of-us-goods.html>, Accessed June 13, 2020.

<sup>87</sup> Ben Blanchard, and Steve Holland, 2019, “China, U.S. kick off new round of tariffs in trade war,” September 1, <https://www.reuters.com/article/us-usa-trade-china/china-us-kick-off-new-round-of-tariffs-in-trade-war-idUSKCN1VM0V9>, Accessed June 13, 2020.

- **October 11, 2019:** after the two days of trade talk, they have arrived on a Phase 1 deal that China have more purchases on US agriculture products approximately \$40 to \$50 billion while the returning of the delaying on the increasing of tariffs 25% to 30% US\$250 billion by US and this agreement needs time to finalize. But if this agreement didn't not success, the tariffs raising can come back and the US has another 15 percent duties worth \$300 billion.<sup>88</sup> After they negotiated on Phase 1, on December 13, they confirmed on the 'Phase One' deal which on US side – it will not impose the new tariffs that take effect on December 15, and reduced 15% to 7.5% tariffs on \$112 billion on Chinese imports. For China side, it will extend the US products purchasing by \$200 billion over 2 years and contain agriculture products value US\$40 billion to US\$50 billion and hold the tariffs that take effect on December 15. The 'Phase One Deal' will be signed on January 15.<sup>89</sup>
- **January 15, 2020,** at Washington in the White House, the world's two biggest economies successfully signed on 'Phase One Trade Deal'. However, US president stated that “The second phase of discussions are to begin quickly and there will not be a third phase.”<sup>90</sup> On the following month (February), China cut off tariffs on US imports that have imposed on September 1 value \$74 billion, which enter into force on February 14. And US cut tariffs from 15 to 7.5 percent as the deal in phase 1. Then, China gave more exemptions tariffs around 696 US products and two lists which is free 55 and 10 types of US products. This show the fulfill action of both countries by phase one deal.<sup>91</sup> However, the world has

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<sup>88</sup> Sean Higgins, 2019, “US and China reach 'phase one' trade deal, staving off more tariffs for now,” October 11, <https://www.washingtonexaminer.com/policy/economy/us-and-china-reach-phase-one-trade-deal-staving-off-more-tariffs-for-now>, Accessed June 15, 2020.

<sup>89</sup> Darlene Superville, and Christopher Rugaber, 2020, “Trump Announces Signing Date for 'Phase One' China Trade Deal,” January 1, <https://thediplomat.com/2020/01/trump-announces-signing-date-for-phase-one-china-trade-deal/>, Accessed June 15, 2020.

<sup>90</sup> Steve Herman, 2020, “US, China Sign 'Phase 1' Trade Deal,” January 15, <https://www.voanews.com/economy-business/us-china-sign-phase-1-trade-deal>, Accessed June 15, 2020.

<sup>91</sup> WTO, 2019, “The US-China Trade War: A Timeline,” Accessed June 15, 2020.

been faced on the pandemic of COVID- 19 which it has extremely raised from March. Therefore, according to USTR, stated on May 7 that “The parties shared updates on COVID-19 and their assessments of its effects on economic growth as well as the measures their countries are taking to provide support to their economies.”<sup>92</sup> Even in the world of pandemic, both countries declare that they are perpetrated to enforce this agreement.<sup>93</sup> On May 12, China continued their action on excluding 79 US goods from duties from May 19, 2020 to May 18, 2021. Then, On July 14, the fulfill actions on phase one trade deal of China were booking 1.762 million tons of US corn and 129,000 tons of US soybeans. On the other hand, on July 22, 37 exception lists of Chinese imports were announced by USTR. In the responding of necessary needed for COVID-19 pandemic, US considered on the removing more goods which is in Section 301 tariffs.<sup>94</sup>

- **August 15, 2020:** the phase one trade deal which was signed on January 15 was delayed the schedule for review on August 15 by US and China. There is no clear information why they postponed the video conference between US and China and also there is no any announcement of new date for the review. However, the target of purchases US products of China in the first half of this year was behind the complement of trade deal with US even though China booted up buying of US agriculture and power goods in late weeks. Moreover, on August 19, the exception on Hong Kong shipping company of reciprocal tax was suspended or terminated by US.<sup>95</sup>
- **On August 25, 2020:** the trade talks between US and China has been hold as an appointment. According to the Ministry of Commerce of China, stated that “Both sides

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<sup>92</sup> USTR Office, 2020, “USTR and Treasury Statement on Call With China,” May 7, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/ustr-and-treasury-statement-call-china>, Accessed June 15, 2020.

<sup>93</sup> Mayaz Alam, 2020, “Where the US-China Trade War Should Go From Here,” July 6, <https://thediplomat.com/2020/07/where-the-us-china-trade-war-should-go-from-here/>, Accessed June 15, 2020.

<sup>94</sup> Dorcas Wong, and Alexander Chipman Koty, 2020, “The US-China Trade War: A Timeline,” Accessed June 15, 2018.

<sup>95</sup> WTO, 2019, “The US-China Trade War: A Timeline,” Accessed June 15, 2020.

agreed to create conditions and atmosphere to continue to promote the implementation of the first phase of the China-US economic and trade agreement.”<sup>96</sup>The discussion on implementation of Phase One Agreement, the statement of USTR released that

*“The parties addressed steps that China has taken to effectuate structural changes called for by the Agreement that will ensure greater protection for intellectual property rights, remove impediments to American companies in the areas of financial services and agriculture, and eliminate forced technology transfer. The parties also discussed the significant increases in purchases of U.S. products by China as well as future actions needed to implement the agreement.”<sup>97</sup>*

Therefore, this participation of both countries on trade talks is a sign of their intention to still seek for the implementation of the agreement on phase one trade deal.

## **2.5. Worldwide Impacts**

A The global economic growth is being the highest risk from the trade war. In the previous year, the global supply chain and the global trade growth has been reinforced through the lower tariffs and relaxed trade barriers. The United States has sought to be some unjustifiable to the trade war and has started trade disputes with several different economies in order to achieve what US believed it fared by United States increase the tariff on China. The most tension conflict is with China that additional tariffs and China act back by increase tariff on US. In this context between US and China both countries are being affected from the trade war and influences to the world.

### **2.5.1. Low Profitability**

Trade war extremely impact to some industries which are afraid or unable pass the previous cost onto their customers. It’s certainly show that the company profits are reduced. In other hand, for the public companies, it impacts the stock prices and the company’s profit. As

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<sup>96</sup> The Ministry of Commerce New Office, 2020, “Liu He spoke with U.S. Trade Representative Lighthizer and Treasury Secretary Mnuchin,” August 25, <http://www.mofcom.gov.cn/article/ae/ldhd/202008/20200802995441.shtml>, Accessed June 15, 2020.

<sup>97</sup> USTR, Office, 2020, “Statement on Call Between the United States and China,” August 24, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/august/statement-call-between-united-states-and-china>, Accessed June 15, 2020.

the example Alcoa is the largest aluminum producer in United States. However, Alcoa is not benefit from tariffs on foreign aluminum producers. Since the trade war emerged, the costs have growth because of it is imported from Canada which produce its own aluminum. The United State still need the required primary aluminum from Canada about 60%, even if the capacity of reduce the aluminum.<sup>98</sup> Canada is the significant source of mental aluminum producer. Alcoa now is facing an extremely of reducing revenues and lower margins. The profitability of the company is forecast to decrease by 80% a year. **According to Trefis**, projecting its net income to decrease from \$227 million in 2018 to \$27 million in 2019 and the income margin of 0.3% in 2019, barely breaking-even<sup>99</sup>. It has been expected to decrease aluminum and alumina prices, along with an increase in cost of sales and restructuring charges, due to the company's operational and production issues. However, margins are expected to rebound in 2020, on the back of higher revenue and absence of non-recurring major restructuring charges.<sup>100</sup> Looking back to the United State, it causes its unemployment index is increased. There were more than 130,000 jobs creation in United States were cut<sup>101</sup>. During the trade war, in 2018 the jobless rate in the United States was 3.8 percent compare to May 2019 was 3.6 percent and 5.9 million people who were unemployed.<sup>102</sup> This showed that it was a bit changed and it badly effect in 2018 the year of trade war was emerge.

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<sup>98</sup> Tomil Kilgor, 2018, "Alcoa CEO explains why aluminum tariffs are hurting, not helping," July 22, <https://www.marketwatch.com/story/why-trump-administrations-aluminum-tariffs-are-hurting-alcoa-more-than-helping-2018-07-19>, Accessed June 16, 2020.

<sup>99</sup> "Company list for materials sector," Trefis: Collaborate On Forecasts, <https://dashboards.trefis.com/data/companies/sector/Materials?fromforbesandData>, Accessed June 16, 2020.

<sup>100</sup> "Alcoa: Cost and Profitability Analysis" Trefis: collaborate on forecasts, <https://dashboards.trefis.com/no-login-required/8b4Tqp3g/Alcoa-Cost-And-Profitability-Analysis>, Accessed June 16, 2020.

<sup>101</sup> Sophie Jones, 2020, "The Impact of China-US Trade War on Employment," Global-Is-Asian, February 19, <https://lkyspp.nus.edu.sg/gia/article/the-impact-of-china-us-trade-war-on-employment>, Accessed June 16, 2020.

<sup>102</sup> 2019, "TED: The Economics Daily," U.S Bureau of Labor Statistics, June 12, [https://www.bls.gov/opub/ted/2019/unemployment-rate-unchanged-at-3-point-6-percent-in-may-2019.htm?view\\_full](https://www.bls.gov/opub/ted/2019/unemployment-rate-unchanged-at-3-point-6-percent-in-may-2019.htm?view_full), Accessed June 16, 2020.

### **2.5.2. Trade War and Its Impact to The Global Financial Market**

The escalate of the trade war to the 25% points tariff increased it had affected to all bilateral trades between US and China. This scenario, tariff increases 25% has been implemented on all of the remaining 30% of United States imports from China. In this addition, the cars imported from the EU is 25% import tariff increased by the United States and EU respond 25% import tariff increase imposed on dollars for the US imports as the same amount. The risk scenario presumes that trade war leads to a two-phased tightening of financial conditions. In the first phase, risk of loan is the concern in the emerging economies rise on the previous estimate is 50 basis points but it rises to additional 150 basis points. In the second phase, the financial market possible spread effect into the global economy, therefore it risks on corporate loans in advanced economies as well and on sovereign bonds all over the world. Due to the financial market, it may grow to be far greater impact on the global economy than the effects through the direct trade channel and reduced uncertainty-related investment.

#### **Some benefit Countries in the world from trade war**

Trade war is already bringing the negative impact to the world that cause the world economic crisis. However, trade war is not too worse to the world it could world's trade beneficitation, the protectionism is happened in many industrialized countries. Due to the trade war it could cause some countries to gain some benefit to the world as follow. Some countries follow to the difference policy for their interest and be in good tie relations and could beneficial from their products export to each United States and China.

European Union (EU) is also one of the biggest beneficiaries. \$2.7 billion that was gain from additional export to the United States.<sup>103</sup> According to a new study Key Statistics and

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<sup>103</sup> DTE Staff, 2019, "Who benefits most from US-China Trade War: Chinese 'Province' Taiwan" Down to Earth, November 27, <https://www.downtoearth.org.in/news/economy/who-benefits-most-from-us-china-trade-war-chinese-province-taiwan-67630>, Accessed June 16, 2020.



Trends in Trade Policy 2018 by UNCTAD, the firm in other countries will be captured by 82 percent. Chinese firm will retain 12 percent and United State firm about 6 percent.<sup>104</sup>

In Southeast Asia, Vietnam is also a big trade gainer. As its economy, \$2.6 billion is the trade income by Vietnam's export. India is one of the trades gainers during trade war. **According to the United Nations**, India additional exports about \$755 million from chemical, metals and ore.<sup>105</sup> **According to** a report released by the Institute for International Trade of the Korea International Trade Association on June 13 2019, the U.S.-China trade war is gaining the benefit from the trade by exporting to the United States.<sup>106</sup> The Chinese goods import about 20.5 percent and deficit to 24.7 percent in the first quarter of 2019 into United States market due to the restrictions of the Chinese goods. \$250 billion of Chinese goods are the tariff imposed on four different occasion since July 2018. This is the reason why can increase the Korea import to the United States.

There was 2.87 percent in the first half of 2018 South Korean's export are growth to 3.33 percent in the first quarter of 2019.<sup>107</sup> Both Canada and United States have the struggle concern their respective relations with China, Canada take the chance opportunity to strengthen the trade relations with the United States. **According to data Statistics Canada** In January to August 2018, Canada exports to the United States are \$292.5 billion to \$298.6 billion in August 2019.<sup>108</sup>

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<sup>104</sup> UN Conference on Trade and Development, "Key Statistics and Trends in Trade Policy 2018," <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2345>, Accessed June 16, 2020.

<sup>105</sup> Indo Asian News Service, 2019, "India sent \$755 million more in exports to US due to trade war": UN," November 06, <https://www.hindustantimes.com/world-news/india-sent-755-million-more-in-exports-to-us-due-to-trade-war-un/story-mCe6OEXRS2vZMvFKOd91bO.html>, Accessed June 16, 2020.

<sup>106</sup> Jung Suk-ye, 2019, "U.S-China Trade War Benefiting Korea's exports to U.S.," Business Korea since 1983, June 13, <http://www.businesskorea.co.kr/news/articleView.html?idxno=32806>, Accessed June 16, 2020.

<sup>107</sup> Ibid.

<sup>108</sup> "Trade in Goods with Canada" Foreign Trade," <https://www.census.gov/foreign-trade/balance/c1220.html>, Accessed June 16, 2020.

## **CHAPTER III: THE RISKS OF SOUTHEAST ASIA NATIONS FROM US-CHINA TRADE WAR**

In this Chapter, which is mainly going to go through risks regarding the trade war between the Chinese and the United States of America on the topic of economic side, political side and diplomacy or security safety that possibly effect on the **Southeast Asia nations**. The risks and problems that comes from facing or the spread affect from the clash of the titans. As the two largest economics power clash what will or may happen occurring during the mist of the wars of economic power. As it affects not only the two countries but other countries like its trading partners such as Vietnam, Malaysia or mainly the region of Asia.

### **3.1. Economic**

Current U.S Present Donald J. Trump whom was elected present of the 2016 had stated prior to his presidential election stated that the U.S is suffering from trade deficit. And he made it clear that he against free trade and rather wanting a fair trade.<sup>109</sup> After his election, Trump and the U.S had lunch numerous import tariff on many Chinese imports to try to counteract the trade deficit.

Evidentially, Trump's plan to reduce the deficit seems to backfires. The Balance of goods traded with China on both imports and exports in 2016 were just -\$346,825.2 million and rose up to -\$375,167.9 million and -\$418,953.9 million of 2017 and 2018 respectively. Imposing import tariffs on Chinese goods will only leads to the Chinese retaliation. As of January 15 2020, the U.S. tariffs "*exclusively*" on goods from China is a total of \$550 billion where are the Chinese is a sum of \$185 billion.<sup>110</sup> The U.S. – China Trade War will not only just effect heavily on both countries economy but the global economy as whole mainly their trading partner respectively.

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<sup>109</sup> Moeller , Joergen Oerstroem, 2018, "Persective," Accessed August 05, 2020.

<sup>110</sup> Dorcas, Wong, and Alexander Chipman Koty, 2020, "The US-China Trade War: A Timeline."

An estimates by the Organization for Economic Cooperation and Development (OECD) stated that \$600 billion or around 0.7% of the global output growth by 2021 will be loss due to the trade war. The clash of titans would affect heavily on their respective major trading partner in which is the region of Southeast Asia. East Asia like South Korea, Malaysia and Taiwan would also see drawback from this trade war.<sup>111</sup> The region of Asia have been a vital part for China in importing goods to the U.S. such finishing goods, machinery and other communication components from countries like Vietnam and Malaysia. With higher price from consuming product form the Southeast Asia which will negatively affect the consumption of the products.<sup>112</sup> Countries likes Vietnam, Malaysia, Thailand and even Cambodia could see drawbacks from the trade war.

### **3.1.1. Impact on Vietnam**

In the case with Vietnam, the Vietnamese is a key factors with not just one side of both parties but they are key trading partners with both the U.S. and Chinese. Thus, with the high trade liberalization for both U.S and Chinese. The Vietnamese will face a complexity and issues from the U.S-China trade war in particular.<sup>113</sup> Negatively, when the tariff imposed on the Chinese product. The Chinese can use the method of *“borrow Vietnamese sugar”* as a way legal way in exporting in the U.S. market. For instance, China can use the Vietnamese steel as an impersonation to export into the U.S that can likely cause breakout between the U.S and Vietnam. Another method for the Chinese is that they can splash out a ton of money by investing heavily into the Asia region countries. By adding Vietnam into the investing, China can than export its product from Vietnam to the U.S. Which will also cause competitiveness in the

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<sup>111</sup> Kalsie, Anjala, and Ashima Arora, 2019, "Management and Economics Research Journal," Edited by Badar A. Iqbal . *US-China Trade War: The Tale of Clash Between Biggest Developed and Developing Economics of the World* 5 (4): 8-9, Accessed July 28 , 2020.

<sup>112</sup> Moeller , Joergen Oerstroem, 2018, "Perspective," p 3-4, Accessed August 03, 2020.

<sup>113</sup> Lam , Thanh, and Phuc Duc Nguyen, 2019, "Perspective," *The US-China Trade War: Impact on Vietnam* (102): 1-10, Accessed August 26 , 2020.

Vietnam market.<sup>114</sup> This will likely cause problem for the Vietnamese. Especially for its domestic products. As there is more investment from foreign country in this situation China, the domestic product consumption will likely differ.

As *Foreign Direct Investment* or *FDI* increasing in Vietnam do this Chinese method, it will also cause another deficit. According to Vissak and Roolah paper, they stated that increasing in FDI can cause the domestic country problem which could lead the country's account deficit and also putting down pressure on the exchange rate as well.<sup>115</sup> According to Heang and Moolio (2013), Foreign Direct Investment or FDI contribution a lot in a domestic country growth, creating jobs, mainly positive impact on country especially the GDP as well.<sup>116</sup> Another source argue with this statement, stated that if the U.S. goes out it way to imposes tariff on Chinese product up to 25% it can cause impact. Standard Chartered Bank studied show that the activity between the China and U.S can affect 1% of Vietnam's GDP.<sup>117</sup> By this we can say that although the FDI increase and has many benefactors for the domestic country. It can also have effect on the GDP as well. But only a small portion of it.

This method from the Chinese had been made clear by the U.S. President Donald J. Trump and threatened about product that leaving China to places like Vietnam. The evident was made even clear that during a shipment from Vietnam. The custom officer found shoes that were made in China labeled as Vietnamese.<sup>118</sup> This also can cause problem to Vietnam because

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<sup>114</sup> Dr. Nguyen, Tien Hoang, Vu Thanh Nguyen, Dung Tien Ho, and Minh Duc Doan Le, 2019, "International Journal Research in Finance and Management," *China-US trade war and risks for Vietnam's economy* 2 (2): 86-90, Accessed August 27, 2020.

<sup>115</sup> Vissak, Tiia, and Tonu Roolah, 2014, "Problem of Economic Transition," *The Negative Impact of Foreign Direct Investment on the Estonian Economy* 48 (2): 44-49, Accessed August 27, 2020.

<sup>116</sup> Lim, GuechHeang, and Moolio Pahlaj, 2014, "KASBIT Business Journal," *The Relationship between Gross Domestic Product and Foreign Direct Investment: The Case of Cambodia* 6: 87-95, Accessed August 27, 2020.

<sup>117</sup> Hein, Nguyen, and Ngoc Loan, 2018, "How is Vietnam affected by the US-China trade war?" *Customs News*, July 14. Accessed August 27, 2020, <https://custom>

<sup>118</sup> Wataru, Michishita, 2019, "US-China trade war sends ripples to Vietnam," *NHK World-Japan*, November 12, <https://www3.nhk.or.jp/nhkworld/en/news/backstories/730/>, Accessed August 27, 2020.

of the Chinese. It might erupt the tension with Vietnam and U.S. but also force the Vietnamese try to retaliate against China too.

### **3.1.2. Impact on Malaysia**

Another country that has negative impact from the U.S-China trade is Malaysia. Expert believe so but the Prime Minister Tun Dr Mahathir Mohamad tough otherwise. As the trade war worsen, it is expected to put pressure on Malaysia's GDP.<sup>119</sup> Another also stated against the Prime Minister optimistic, which goes and dubbed that it could be very harmful for the Malaysian because of its open and small economic and very dependent on trade which also deeply connected to global supply chain. Large firms and almost half small to medium enterprise of Malaysia is routed with or participate with the supply chains.<sup>120</sup>

The trade tension between the U.S and the Chinese could also cause a trade diversion in any ASEAN which including Malaysia. In 2018, it was stated that if the situation between the Chinese and U.S. were to escalated into a full trade war it would cause losses for Malaysia. The higher the tariff the more it will affect financial market that will cause a reduction in trade.<sup>121</sup> As mention above, the Malaysian is an open economy and very depending on stock. Easily if something were to happen to global trade; it also would lead to downfall for them as well. For instance, the Malaysian export electric related goods to Chinese and also the country largest trading partner. The tariffs imposed by the United State will have an effect on the supply chain of China. Thus, it will harm Malaysian exports as well. As the U.S. looks elsewhere to replace the goods that imported from the China; it will reduce the rate of import from Malaysia

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<sup>119</sup> Kana, Ganeshwaran , and P. Aruna, 2018, "Experts: US-China trade war may have negative impact on Malaysia," August 07, <https://www.thestar.com.my/news/nation/2018/08/07/experts-uschina-trade-war-may-have-negative-impact-on-malaysia/>, Accessed August 27, 2020.

<sup>120</sup> Cheng, Calvin, 2019, "Is Malaysia benefiting from the US-China trade war?," East Asia Forum , August 05, <https://www.eastasiaforum.org/2019/08/05/is-malaysia-benefitting-from-the-us-china-trade-war/>, Accessed August 27, 2020.

<sup>121</sup> Emir, Zainul, 2018, "US-China trade tensions net neagtive for Malaysia," The Edge Markets, August 15, <https://www.theedgemarkets.com/article/uschina-trade-tensions-net-negative-malaysia>, Accessed August 27, 2020.

to China. A question was asked about can the Malaysian offset this negative impact from the U.S-China trade war. As far as thing stand, Malaysia is in a difficult spot at the moment.<sup>122</sup>

### **3.1.3. Impact on Thailand**

As one of the leading economy in ASEAN, the Thailand cannot also have escaped the consequence of the Trade war. The tariffs and retaliation from the U.S and China could also be a challenged as well as opportunities for the Thailand. The challenges can prove costly for Thailand. Similar to Malaysia, the Thailand is also a part of the global supply chain.<sup>123</sup>

*“One thing is clear. The trade wars between the world’s two biggest economics will drag on for a long time. There will be an economic slowdown across the globe and server impacts on the supply chain.”<sup>124</sup>*

The problems and risks for Thailand is for depending on the China’s economy. Over the years’ investment from China exceeded over 40 times to 14% of the total foreign direct investment of Thailand. Although exports from Thailand to China had increased to 12% in total. As well as increasing in revenue on tourism sectors from China too; blew from 5% to 29%. Thus, the term over depending on China economy.<sup>125</sup> The escalation of trade war continues, it will negatively influence Thailand economy as well. Thailand like Malaysia import a lot of goods to China in which are rubbers, plastics and electrical equipment to name a few. Similar case to Malaysia, if the U.S. were to take matters in their hand and find substitute those goods. Or even impose more tariff rate to point that consuming products from China is too expensive. It will slow down China’s economy which Thailand is very dependent on. The longer the trade war goes. The bigger the impact on Thailand. As mentioned, Thailand exports

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<sup>122</sup> Cheng, Calvin, 2019, "Is Malaysia benefiting from the US-China trade war?," East Asia Forum, August 05, <https://www.eastasiaforum.org/2019/08/05/is-malaysia-benefitting-from-the-us-china-trade-war/>, Accessed August 27, 2020.

<sup>123</sup> The Nation Thailand, 2020, "how Thailand is affected by US-China trade conflict," The Nation Thailand, January 02, <https://www.nationthailand.com/opinion/30361505#:~:text=Possible%20impacts%20of%20the%20trade,in%20the%20US%20and%20China>, Accessed August 27, 2020.

<sup>124</sup> Thailand Development Research Institute, 2019, "Thailand's risks and opportunities under US-China trade war," Thailand Development Research, July 26, <https://tdri.or.th/en/2019/08/thailands-risks-and-opportunities-under-us-china-trade-war/>, Accessed August 27, 2020.

<sup>125</sup> Ibid.

and tourism from China is relatively high. If that were to slow down, it will slow the economy of Thailand down a lot. Which in could see unemployment rate goes up or decreasing in national revenue as well as negatively effects the overall GDP of Thailand.

#### **3.1.4. Impact on Cambodia**

US is Cambodia top export partner, from 2017 to 2019, Cambodia exported to USA in the amount between 3 to 5 thousand million USD<sup>126</sup>, whereas Cambodia only export approximate 7 to 8 hundred million to China in the same years, while import over 5 to 6 billion from China.<sup>127</sup> China is Cambodia's biggest aid donor and investor, pouring in billions of dollars in development assistance and loans through the Belt and Road Initiative. This has made Cambodia faced the issues of balancing the relationship between US and China, when US is trying to express their concern over the issue of trade deficit and urge Cambodia to consider their relations with China. One example was that in July 2019, The United States has fined several companies for exporting goods via a Chinese-owned special economic zone in Cambodia in a bid to dodge President Donald Trump's tariffs on Chinese imports. "The Department of Homeland Security has inspected and fined a number of companies for evading tariffs in the United States by routing goods through Cambodia "These companies are located in Cambodia's Sihanoukville Special Economic Zone, who did not name or say how many companies had been fined for avoiding the tariffs, how large the fines were, or what goods the companies had been exporting. this action is believed to avoid trade war."<sup>128</sup>

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<sup>126</sup> United States Census Bureau, 2020, "Trade in Goods with Cambodia," <https://www.census.gov/foreign-trade/balance/c5550.html> Accessed August 28, 2020.

<sup>127</sup> Trading Economics, 2020, "Cambodia imports from China," August. <https://tradingeconomics.com/cambodia/imports/china#:~:text=%20Cambodia%20imports%20from%20China%20was,updated%20on%20August%20of%202020>, Accessed August 28, 2020.

<sup>128</sup> South China Morning Post, 2019, "US fines companies exporting goods via Cambodia to dodge Trump's trade war tariffs on China," June 19, <https://www.scmp.com/news/asia/southeast-asia/article/3015202/us-fines-companies-exporting-goods-cambodia-dodge-trumps>, Accessed August 28, 2020.

## **3.2. Diplomacy or Securities Risks**

### **3.2.1. Fake label location**

Since the US-China trade war started, and also put tariff on each other imported product. It is the main point that companies which located in the US and China try to find the way to export product to avoid tariff. Most companies try to avoid tariff by rerouting or fake label location. According to The Wall Street Journal, most companies in the China try to reroute to another country and changing a label location and export to the US to avoid tariff.<sup>129</sup> This provide benefit to China but, it makes victim country become trade fraud. It is not just making victim country has trade fraud but also the diplomacy with the US. This part will show the fake label case that happen in some country of Southeast Asia nations, such as, Vietnam and Cambodia.

#### **3.2.1.1. Vietnam**

Vietnam is a member of World Trade Organization (WTO).<sup>130</sup> Under a WTO Vietnam has many trade agreements, especially US-Vietnam Bilateral Trade Agreement (BTA).<sup>131</sup> Which provide a benefit to a fake label company, by trying to reroute with shipping to Vietnam to get a proof origin “Made in Vietnam” label.<sup>132</sup> This method from the Chinese had been made clear by the U.S. President Donald J. Trump and threatened about product that leaving China to places like Vietnam. The evident was made even clear that during a shipment from Vietnam.

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<sup>129</sup> Chuin-Wei, Yap, 2019, “Companies dodge US tariffs on China by rerouting goods” ,June 27, <https://www.thestar.com.my/business/business-news/2019/06/27/companies-dodge-us-tariffs-on-china-by-rerouting-goods>, Accessed July 25, 2020

<sup>130</sup> WTO, 2016, “Members and Observers”, July 29, [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm), Accessed July 25, 2020.

<sup>131</sup> Vietnam, Briefing, 2019, “ Vietnam’s Free Trade Agreements – Opportunities for Your Business”, May 9, <https://www.vietnam-briefing.com/news/vietnam-free-trade-agreements-opportunities-for-your-business.html/>, Accessed July 26, 2020.

<sup>132</sup> Chau, Mai Ngoc, and John Boudreau, 2019, “Chinese Exporters Dodge Tariffs With Fake Made-in-Vietnam Labels”, June 10, <https://www.bloomberquint.com/global-economics/vietnam-cracks-down-on-chinese-made-goods-being-shipped-to-u-s>, Accessed July 25, 2020



The custom officer found shoes that were made in China labeled as Vietnamese. This also can cause problem to Vietnam because of the Chinese.<sup>133</sup> It might erupt the tension with Vietnam and U.S. but also force the Vietnamese try to retaliate against China too. It also makes unstable diplomacy with Vietnam and the US.

### **3.2.1.2. Cambodia**

Cambodia also get a diplomacy risk from the US-China trade war too. Cambodia is also a member of World Trade of Organization (WTO), and least-developed country (LDC).<sup>134</sup> Cambodia and the US has a Trade and Investment Framework Agreement (TIFA).<sup>135</sup> All of this agreement between the US and China, it make Cambodia become a destination for China to make trade fraud of faking label location. According to REUTERS, The Sihanouk Ville Special Economic Zone (SSEZ) is the place where several of Chinese company export via this place to dodge the US's tariffs on Chinese imports. As a result, the US start to put a punishment on the companies who transshipping via Cambodia to avoid tariff.<sup>136</sup> This is also making Cambodia as a victim of the trade war, and it also can ruin the relationship between the US and Cambodia.

### **3.2.2. Alliance Bias**

The US-China trade war leads the Southeast Asia countries facing a diplomacy risks, because every Southeast Asia countries have different alliance bias. Between the US and China, when which one of them provide more benefit to the country more than each other, absolutely the country that receive benefit will become alliance to them. Being alliance bias also provide a risk to that country too, when ally countries has war with other, like the trade war between

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<sup>133</sup> Wataru, Michishita, 2019, "US-China trade war sends ripples to Vietnam", November 12, <https://www3.nhk.or.jp/nhkworld/en/news/backstories/730/>, Accessed July 25, 2020.

<sup>134</sup> WTO, 2016, "Members and Observers", July 29

<sup>135</sup> Export.gov, 2019, "Cambodia-Market Overview", August 6, <https://www.export.gov/apex/article2?id=Cambodia-Market-Overview>, Accessed July 26, 2020.

<sup>136</sup> Chan Thul, Prak, 2019, "U.S. fines firms transshipping via Cambodia to dodge Trump's China tariffs", June 19, <https://www.reuters.com/article/us-usa-trade-china-cambodia/us-fines-firms-transshipping-via-cambodia-to-dodge-trumps-china-tariffs-idUSKCN1TK0QR>, Accessed July 26, 2020

the US and China. This part will analyze to the risk of alliance bias, in the case of some Southeast Asia countries, such as, Cambodia, and Malaysia.

### **3.2.2.1. Cambodia**

Cambodia and China have a strong relationship with each other.<sup>137</sup> Cambodia is alliance to China. Cambodia has its own currency and known as riel, but Cambodia is widely accepting the US dollar for everywhere and everyone, it is like the second currency for Cambodia.<sup>138</sup> As Cambodia is alliance to China, but it uses US currency. When the US-China trade war occur, Cambodia can get risk from the US, if the US want to make a conflict with other alliance of China, for the risk that Cambodia will face is the rise of the inflation in currency exchange. In the case of Argentina that had already happened, and if the US does, Cambodia will be facing the similar case of Argentina. Argentina currency is Peso, but during 90s Argentina peg their currency to the US dollar.<sup>139</sup> Peg currency to US dollar which mean the inflation or rise and falls is along with inflation of US dollar.<sup>140</sup> Which mean 1 peso equal 1 dollar. Due to peg currency and falling to foreign debt lead the value of Argentina currency peso devaluate up to 75 percent of its value compare to US dollar, this devaluation of currency lead Argentina to financial crisis.<sup>141</sup> In case of Cambodia, if the US want to make a conflict with Cambodia, Cambodia will received the same result as Argentina.

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<sup>137</sup> PressOCM, 2019, “ Cambodia, China Reaffirm Their Strong Friendship”, April 28, <https://pressocm.gov.kh/en/archives/52139>, Accessed July 26, 2020

<sup>138</sup> Lonely, Planet, 2020, “ Money and Costs”, <https://www.lonelyplanet.com/cambodia/a/nar-gr/money-and-costs/355852>, Accessed July 26, 2020

<sup>139</sup> Marcos, Buscaglia, Miguel A Kiguel , and Eduardo Levy Yeyati, 2019, “Argentina’s foreign exchange regime is broken”, April 17, <https://www.ft.com/content/09e9e924-5ba9-11e9-9dde-7aedca0a081a>, Accessed July 26, 2020.

<sup>140</sup> Kimberly, Amadeo, 2020, “ The Dollar Peg, How It Works and Why It's Done”, May 06, <https://www.thebalance.com/what-is-a-peg-to-the-dollar-3305925>, Accessed July 27, 2020.

<sup>141</sup> Lucas , Downey, 2020, “ARS (Argentinian Nuevo peso)”, August 13, <https://www.investopedia.com/terms/forex/a/ars-argentinian-nuevo-peso.asp>, Accessed August 20, 2020.

### 3.2.2.2. Malaysia

Malaysia is one of the countries in Southeast Asia. Malaysia has a strong relationship with the US.<sup>142</sup> Malaysia is more likely alliance to the US. Malaysia is also one of the Southeast Asia country that borrow the fund from the project of China's Belt and Road Initiative (BRI), and the amount of total value is \$7.22 billion.<sup>143</sup> While right now Malaysia in debt with foreign country for \$ 252 billion.<sup>144</sup> As Malaysia is alliance to the US, and if China want to make a conflict with the US alliance. So, suddenly China try to claim their money back from the BRI, Malaysia will be facing the risk from being alliance of the US. In case of Sri Lanka, due to not having enough money to pay back to BRI project, as a result Sri Lanka force to give their port to China for 99-year lease.<sup>145</sup> In the same case, If China want to have a conflict with the US alliance, Malaysia will having the same faith as Sri Lanka.

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<sup>142</sup> U.S. Embassy in Malaysia, 2020, "Our Relationship", <https://my.usembassy.gov/our-relationship/>, Accessed July 25, 2020.

<sup>143</sup> Rachel Lau, 2017, "China's Belt and Road: What's in it for Malaysia", September 3, <https://www.theborneopost.com/2017/09/03/chinas-belt-and-road-whats-in-it-for-malaysia/>, Accessed July 26, 2020.

<sup>144</sup> ChinaDaily, 2018, "*Malaysia's debt 'over \$250 billion'*", May 22, [http://www.chinadaily.com.cn/cndy/2018-05/22/content\\_36245333.htm](http://www.chinadaily.com.cn/cndy/2018-05/22/content_36245333.htm), Accessed July 25, 2020

<sup>145</sup> Eric Bellman, 2019, "*Sri Lanka, Deep in Debt, Turns Increasingly to China for Loans*", January 29, [https://www.wsj.com/articles/sri-lanka-deep-in-debt-turns-increasingly-to-china-for-loans-11548774001?mod=article\\_inline](https://www.wsj.com/articles/sri-lanka-deep-in-debt-turns-increasingly-to-china-for-loans-11548774001?mod=article_inline), Accessed July 26, 2020.

## **CHAPTER IV: THE OPPORTUNITIES OF SOUTHEAST ASIA NATIONS FROM US-CHINA TRADE WAR**

The US-China trade war is the main reason behind the uncertainty in financial markets during 2018 and 2019, which has affected investor confidence globally. The United States Changed the trade policy with China to reduce the US trade deficit with China. If both countries don't change their policy, it certainly causes the financial market of both countries are in deficit. Another way, to encourage some US industries consider to invest in their domestic industries and reduce the investment with China's industries and seek to invest into Southeast Asia Nations. The China's policy is to enhance economics and trying to avoid the import and export trade with United States. Because of their challenges, both powerful countries decided to look over to Southeast Asia Nations. In other hand, the countries in Southeast Asia Nation also gain the benefit from the US-China trade war and it is the opportunities of them.

### **4.1. Relocated Companies**

Trade war caused United States and China lost their benefits and it is also effective to the world economic crisis. However, trade war has influenced and giving the opportunities to many countries. According to the Nikkei Asian review, due to the trade war and increasing the tariff between both powerful countries United States and China, there are more than 50 companies move the products and some industries have moved out from China.<sup>146</sup> There is around two years that United States and China are clashing with each other, the United States first trade punishment on China was 25% tariffs placed on \$200 billion of Chinese goods and another \$325 billion of goods.<sup>147</sup> There are more and more companies are planning and

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<sup>146</sup> SAMICHI MA HOSHI, NAKAFUJI REI, and CHO YUSHO, 2019, "China Scrambles to Stem Manufacturing Exodus as 50 Companies Leave," July 18, <https://asia.nikkei.com/Economy/Trade-war/China-scrambles-to-stem-manufacturing-exodus-as-50-companies-leave>, Accessed August 6, 2020.

<sup>147</sup> CNBC, 2018, "China Vows Retaliation If Trump Slaps 25% Tariff on \$200 Billion of Chinese Imports," August 1, <https://www.cnbc.com/2018/08/01/china-vows-retaliation-if-trump-slaps-25percent-tariff-on-200-billion-of-ch.html>, Accessed August 6, 2020.

considering to deviate manufacturing from China. As the HP and Dell company could reach to 30% of their notebook production that is the American personal computer makers that take place in China could move to some countries in Southeast Asia Nations. Most of the Apple's supply chain are located in China, due to the tariff increase cause the United States lost their benefit. Hence Apple decided to asked its major suppliers and moving around 15% to 30% of their production capacity from China to India<sup>148</sup>. Currently, approximately \$1.5 billion that smartphones are selling in India and manufactured about \$0.5 billion in India<sup>149</sup>. It is for fact that India isn't a big market for Apple sell in India. It's just only the small part of selling. In contrast, Apple is a top investor in China. In 2018-2019 Apple produced merchandise valued at \$220 billion in China and exported goods \$185 billion and directly and indirectly employs around 4.8 million people.<sup>150</sup>

Here is the table of the US firms in China considering to relocate production into South East Asia.<sup>151</sup>

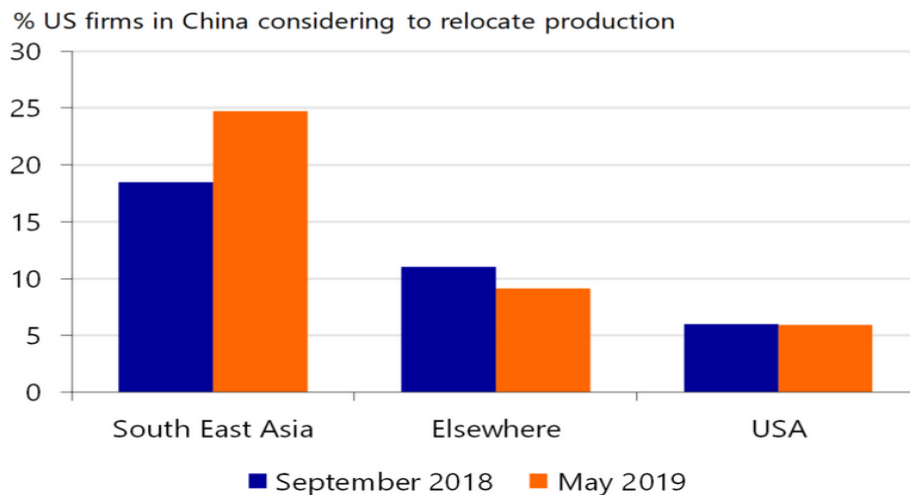
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<sup>148</sup> Prasham Parikh, 2020, "Apple Is Reportedly Looking to Move 20% Of Its Production to India from China," May 12, <https://in.mashable.com/tech/13898/apple-is-reportedly-looking-to-move-20-of-its-production-to-india-from-china>, Accessed August 6, 2020.

<sup>149</sup> Singh Anandita Mankotia, 2020, "Apple May Take a Bigger Bite of India's Manufacturing Pie," May 11, <https://tech.economictimes.indiatimes.com/news/mobile/apple-may-take-a-bigger-bite-of-indias-manufacturing-pie/75666667>, Accessed August 5, 2020.

<sup>150</sup> Mark Moore, 2020, "Apple Reportedly Weighing Shifting Some Production from China to India," May 11, <https://nypost.com/2020/05/11/apple-weighing-shifting-some-production-from-china-to-india/>, Accessed August 13, 2020.

<sup>151</sup> Raphie Hayat, 2019, "Leaving China: Which Countries Might Benefit from a Relocation of Production?" August 08, <https://economics.rabobank.com/publications/2019/august/leaving-china-countries-might-benefit-from-relocation-production/>, Accessed July 28, 2020.



Source: American Chamber of Commerce

Trade tension between United States and China are effected to the world economics unsustainable. However, trade war has bringing the chance to the countries in Southeast Asia Nation to being invest with. In some US industries or companies are used to have the supply chain with China are moved out into Southeast Asia Nation countries to seek the better investment than China. The increasing of the foreign direct investment into the 10 national regional trading bloc has been underway for a numbers of years, however, trade war continues to drive even more capital into the region. There were many United States and China’s companies are moved into Southeast Asia Nations and Some are considering to relocate. In 2019, US companies actively rethinking their supply chain, either to convince their Chinese partners to relocate to southeast Asia to avoid tariffs and trying to reduce opting out of sourcing from China. About three decades ago, costs are the reason why the U.S. producers began manufacturing and sourcing in China.<sup>152</sup> Trade war take risk as tariffs and threaten of companies to weigh surety of supply more fully alongside costs.

<sup>152</sup> Kenneth Rapoza, 2020, “New Data Shows U.S. Companies Are Definitely Leaving China,” April 07, <https://www.forbes.com/sites/kenrapoza/2020/04/07/new-data-shows-us-companies-are-definitely-leaving-china/#4c78cafc40fe>, Accessed July 28, 2020.

Here are the Companies/ industries are already moved and planning to Southeast Asia

<i>Company</i>	<i>Industry</i>	<i>Moved to (or planning)</i>
Harley Davidson	Automotive	Thailand
Hasbro	Toys	Vietnam and India
Kayamatics	Consumer Robotics	Malaysia
Merry electronics	Electronics	Thailand
Nintendo	Video Games	Vietnam
Panasonic	Electronics	Malaysia
Procon Pacific	Packaging	India
Samsung	Electronics	Vietnam
Skechers	Footwear	India or Vietnam
Steve Madden	Footwear	Cambodia
<i>Apple suppliers</i>		
Compal electronics	Electronics	Taiwan
Delta electronics	Electronics	Thailand
Foxconn	Electronics	Vietnam and/or India
Goertek	Technology Hardware	Vietnam
Pegatron	Electronics	India and Indonesia

Sources: The Economist, Bloomberg, Nikkei Asia Review, Wall Street Journal

#### **4.1.1. Vietnam**

Vietnam is one of the communist country in Southeast Asia Nations that are depending on the natural resource Phosphates, coal, manganese, bauxite, chromate, offshore oil and gas deposits, forests, hydropower.<sup>153</sup> And Industries; Food processing, garments, shoes, machine-building, mining, cement, chemical fertilizer, glass, tires, oil, coal, steel, paper.<sup>154</sup> In the past many year, many manufacturers in textiles, garments and other low-end industries Vietnam had attracted due to the rising labor costs. Look back to 2010, Vietnam is the leading producer of

<sup>153</sup> One World National Online, 2020, "Vietnam," <https://www.nationsonline.org/oneworld/vietnam.htm>, Accessed August 28, 2020.

<sup>154</sup> Ibid.

Nike shoes had been surpassed China for the first time.<sup>155</sup> Vietnam now is one of the becoming a big business and create the products for American. The U.S. industry from furniture to footwear are spreading and looking to take place in Some countries in Southeast Asian Nations.<sup>156</sup> Samsung now manufacture most of its mobile phones in Vietnam and this country become the world largest phone producer.<sup>157</sup> Due to the ongoing trade war has changed the world sourcing model upside-down from China. U.S. difficult to doing some trade with China that increasing with tariffs and the U.S. companies are rethinking their supply chains with the new solutions to new problems. The importers are moving out of China as fast as possible. Due to the increasing labor costs, currency shifts and the general push by the Chinese government and change into better sophisticated industries such as tech and aerospace rather than basic consumer goods. Vietnam is become the first choice in the manufacturing and the chance for many U.S company and industry take place because this country had the product of heritage for handcrafted and the delicate sewing and fabrications from ancient of a French colony in the early 20<sup>th</sup> Century.

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<sup>155</sup>Wang Jiamei, 2019, "Will Vietnam become the next 'world's factory' as production moves away from China?," April 04, <http://www.globaltimes.cn/content/1145242.shtml>, Accessed August 28, 2020.

<sup>156</sup> Warren Shoulberg, 2019, "Vietnam Is Becoming the Big Winner in The China Trade Wars," October 16, <https://www.forbes.com/sites/warrenshoulberg/2019/10/16/us-finally-succeeds-in-vietnam-as-more-companies-move-sourcing-there/#624483954a4e>, Accessed August 28, 2020.

<sup>157</sup> Joseph Waring, 2020, "Samsung makes major R&D investment in Vietnam," March 2, <https://www.mobileworldlive.com/asia/asia-news/samsung-makes-major-rd-investment-in-vietnam>, Accessed August 28, 2020.



## The List of Large groups relocating factories from China to Vietnam

Company	Nationality	Status	(Expected) Location in Vietnam	Industry
 Hanwha Aero Engines		Moved	Hanoi	Aerospace manufacturing
 yokowo		Moved	Ha Nam	Automotive components
 huafu		Moved	Long An	Textiles & garments
 Goertek		Moving	Bac Ninh	AirPods manufacturing
 TCL		Moving	Binh Duong	Electronics - TV manufacturing
 FOXCONN		Under consideration	Bac Giang, Quang Ninh	Electronics - TV hardware
 Lenovo		Under consideration	Bac Ninh	Electronics - Computer hardware
 Nintendo		Under consideration	TBD	Electronics - Gaming consoles
 SHARP		Under consideration	Binh Duong	Electronics - Camera modules
 KYOCERA		Under consideration	Hai Phong	Electronics - Printers, copiers
 asics		Under consideration	TBD	Footwear production

Source: Vietnam Investment Review

### 4.1.2. Thailand

Thailand is the forty most competitive nation in the world out of 140 countries ranked in the 2018 edition of the Global Competitiveness Report published by the World Economic Forum<sup>158</sup>. And place 19<sup>th</sup> on macroeconomics of the world Economics competitive.<sup>159</sup> Thailand got the ranks 14<sup>th</sup> in the world automobiles production. There are 400,000 of employment sector accounts for \$25 billion in exports (the third largest in the country).<sup>160</sup> Shifting companies is provided the creating of competition to enhance the new facilities in neighboring countries and to build up the supply chains outside China. Thailand is also one of the country in Southeast

<sup>158</sup> Trading Economics, 2020, "Cambodia imports from China," August, <https://tradingeconomics.com/cambodia/imports/china#:~:text=%20Cambodia%20%20imports%20%20from%20%20China%20was,updated%20on%20August%20of%202020>, Accessed August 28, 2020.

<sup>159</sup> Mark Jones, 2015, "Which ASEAN country is the most competitive?," April 9, <https://www.weforum.org/agenda/2015/04/which-asean-country-is-the-most-competitive/>, Accessed August 28, 2020.

<sup>160</sup> Adrienne Selko, 2013, "Thailand: A Country with a Plan," May 13, <https://www.industryweek.com/expansion-management/article/21960542/thailand-a-country-with-a-plan>, Accessed August 28, 2020.

Asia and the country which is good for US company and industry to relocate in. There are about 10 U.S. firms are planning to relocated some products from China to Thailand.<sup>161</sup>

According to the National Economic & Social Development Council more than a dozen others could possibility choose Thailand.<sup>162</sup> The movement of the 10 firms of some manufacturing to Thailand such as Sony, Sharp Corp., Harley-Davidson Inc. and Delta Electronics Inc. According to the economic and social development agency, some of the firm have done the locations near Bangkok or in the Eastern Economic Corridor development zone on the east coast of Thailand.<sup>163</sup>

#### **4.1.3. Myanmar**

Various manufacturers are relocated their factories from China to other equally productive and less risky such as Myanmar is a counterpart Asian countries that has in good heavily trade relation with United States. Even from textile to tire, the bicycle industry is seeking to move their product from China to this nation due to the labor costs is lower than Chinese. Trade war benefit to Myanmar by increased technological such as the HI Corp from China to Vietnam, due to it cross-border they can transfer of technology benefit and widespread impact on the technological landscape of the country. There were 10% of the affected companied chose to move their facilities to Myanmar that could benefit \$50 billion dollar<sup>164</sup>. And there are among 65,000 US registered firms in Myanmar.<sup>165</sup>

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<sup>161</sup> Bloomberg, 2019, “*Sony, Harley-Davidson, Others Move Production from China to Thailand*,” August 19, <https://www.industryweek.com/supply-chain/article/22028100/sony-harleydavidson-others-move-production-from-china-to-thailand>, Accessed August 28, 2020.

<sup>162</sup> Bloomberg News, 2019, “Producers leaving China ‘positive factor’ for Thai economy,” August 19, <https://www.bangkokpost.com/business/1733023/producers-leaving-china-positive-factor-for-thai-economy>, Accessed August 28, 2020.

<sup>163</sup> Bloomberg, 2019, “*Sony, Harley-Davidson, Others Move Production from China to Thailand*,” Accessed August 28, 2020.

<sup>164</sup> Tetra Inspection, 2018, “How the USA- China trade war benefits to Myanmar’s industry,” November 19, <https://www.tetrainspection.com/usa-china-trade-war-benefits-to-myanmars/>, Accessed August 28, 2020.

<sup>165</sup> Khine Kyaw, 2017, “US investment in Myanmar may double by 2020.” August 7, <https://www.nationthailand.com/business/30323104>, Accessed August 28, 2020.

#### **4.1.4. Indonesia**

In this 2020, Indonesia is also one of the countries in Southeast Asia which is in talks with the US over possible relocation of such companies. About 4,000 hectares of land in Central Java to accommodate the U.S. companies to relocate from China in the add one more reason is corona virus that raising source in China.<sup>166</sup> The foreign Direct Investment in Indonesia is low with just 1.8% of the country's gross domestic product in 2018.<sup>167</sup> But, Indonesia is higher rank than the Vietnam competitor in the United Nation's Competitive industrial Performance Index. According to the World Bank, the rival Indonesia competitors are Vietnam, Malaysia and Cambodia, because the Indonesia's neighbors' are more welcoming<sup>168</sup>

#### **4.2. Investment**

The countries in Southeast Asia country gain benefits from the trade war especially the investment from both powerful countries. Due to the US-China trade war cause both countries difficult to be invest with each other and higher price product. Hence both countries decided look over to other countries to invest it would be the best choice to them. When both powerful countries look over to some countries in Southeast Asia countries it is the best opportunities for the countries in ASEAN to gain the investment from them and it could be the good cooperation with each other.

The U.S. is investing almost to all countries in the world. However, trade war causes U.S. extremely invest and take importantly look back to the Countries in Southeast Asia to invest. When United States take investment in there it causes Southeast Asia gain the benefit as well. After the U.S. President Donald Trump imposed \$200 billion of additional tariffs of

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<sup>166</sup> Nitin J. Ticku, 2020, "AMERICASUS Strikes A Deal With Indonesia To Relocate Its Companies From China?," June 10, <https://eurasianimes.com/us-strikes-deal-with-indonesia-to-relocate-its-companies-from-china/>, Accessed August 28, 2020.

<sup>167</sup> Ibid.

<sup>168</sup> Shotaro Tani, 2020, "Indonesia holds talks with US to Lure Companies from China" June 9, <https://asia.nikkei.com/Economy/Indonesia-holds-talks-with-US-to-lure-companies-from-China>, Accessed August 28, 2020.

Chinese goods in September, Shu, 49, United State decided to start making vest for the clients in Myanmar instead.<sup>169</sup> Cambodia and other southeast Asia nations have got the growing investments because of the ongoing dispute.<sup>170</sup> According to the National Bank, if the ongoing trade it would be extremely the major challenges that caused the international trade activities and investment slowdown, but actually this trade dispute had diverted investment to some countries in such as Cambodia and Vietnam.

More than a year of the tariffs in the US-China trade dispute the foreign direct investment into southeast Asia still on going to grow strongly, even as global levels flat lined. As the estimates from the United Nations conference on Trade and Development (UNCTAD) a global FDI spend of US about \$1.39 trillion in 2019 and the member-states of the Association of Southeast Asian Nations got \$177 billion.<sup>171</sup> This was broken the region's 2018 of \$155 billion. In 2019, Southeast Asia got \$305 billion less than European Union or \$251 billion of the United States.<sup>172</sup> The foreign investment is increasing, but look to European Union dropped 15% and United States still in stable.

In other developing countries or in developing economy such as Latin American and the Caribbean get less FDI than Southeast Asia, that difference from Africa's about \$49 billion.<sup>173</sup>

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<sup>169</sup> CNBC, 2019, "To Dodge US Tariffs, Chinese Exporters Shift Production to Low-Cost Nations," June 26, <https://www.cnbc.com/2019/06/27/us-china-tariffs-chinese-exporters-shift-production-to-southeast-asia.html>, Accessed July 30, 2020.

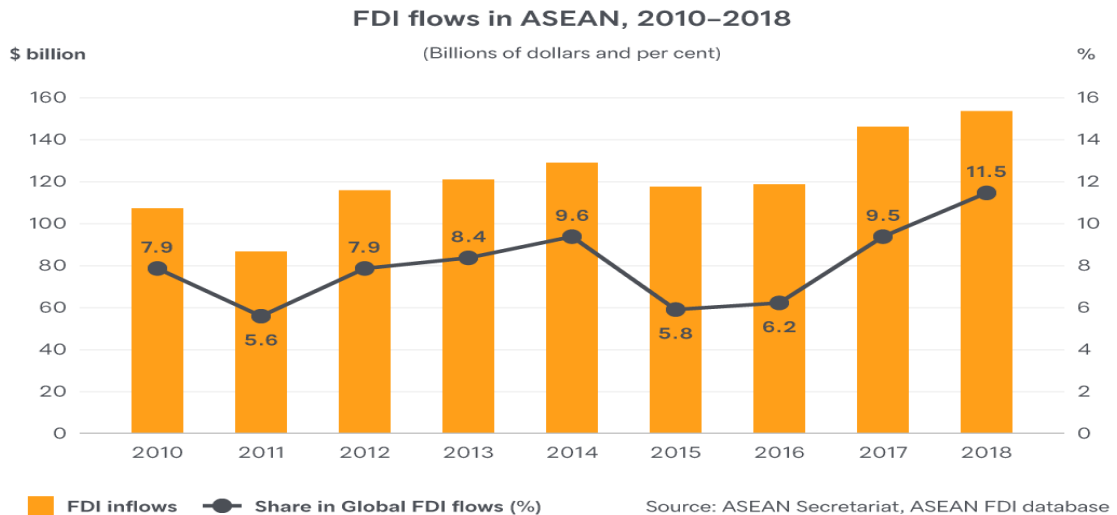
<sup>170</sup>Bunthoeun Chhut, 2020, "US-China Trade Tension Diverts Foreign Investments to Kingdom's Benefit Investments to Kingdom's Benefit" Khmer Time, January 7, <https://www.khmertimeskh.com/677276/us-china-trade-tension-diverts-foreign-investments-to-kingdoms-benefit/>, Accessed July 25, 2020.

<sup>171</sup> UNCTAD, 2020, "Global Investment Flows in 2019, Moderate Increase Expected in 2020," January 20, <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2274>, Accessed July 25, 2020.

<sup>172</sup> UNCTAD, 2018, "World Investment Report 2018: Investment and New Industrial Policies," Organization Report, New York and Geneva: United Nation, [https://unctad.org/en/PublicationsLibrary/wir2018\\_en.pdf](https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf), Accessed June 30, 2020.

<sup>173</sup> UNCTAD, 2019, "Global Investment Trends and Prospects," Organization Report, New York and Geneva: United Nations, [https://unctad.org/en/PublicationChapters/WIR2019\\_CH1.pdf](https://unctad.org/en/PublicationChapters/WIR2019_CH1.pdf), Accessed June 30, 2020.

China's total of \$140 billion was increased than in 2018 and East Asia was decline of 21% dropped of FDI.<sup>174</sup>



Singapore is the fourth highest of any country that was down to “deals in the information and communication sector”. According to the UNCTAD Singapore has the long trade and in doing trade with Hong Kong and the finance capital especially is the headquarters of doing trade<sup>175</sup>. According to the ASEAN Investment Report publish in 2018, there are more than 80 percent want to invest to Singapore.<sup>176</sup>

Look back to Indonesia, the GDP (Gross Domestic Product) average of 5.28% in 2019 and the foreign investment has also hit more than IDR 20.5 trillion it is according to [tradingeconomics.com](https://tradingeconomics.com).<sup>177</sup>

<sup>174</sup> UNCTAD, 2020, “Investment Trends Monitor: Global FDI Flows Flat in 2019 Moderate Increase Expected in 2020,” Organization Report, New York and Geneva: United Nations, [https://unctad.org/en/PublicationsLibrary/diaeiainf2020d1\\_en.pdf](https://unctad.org/en/PublicationsLibrary/diaeiainf2020d1_en.pdf), Accessed June 30, 2020.

<sup>175</sup> UNCTAD, 2019, “Developing Countries in Asia Receive More Than \$500 in Investment,” June 12, <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2112>, Accessed July 26, 2020.

<sup>176</sup> UNCTAD, 2018, “ASEAN Investment Report 2018,” Organization Report, Jakarta: The ASEAN and UNCTAD and Government of Australia, <https://asean.org/storage/2018/11/ASEAN-Investment-Report-2018-for-Website.pdf>, Accessed July 26, 2020.

<sup>177</sup> Cekindo, n.d, “How can China Manufacturing Companies Benefit from Moving Factories to Indonesia?,” <https://www.cekindo.com/blog/trade-war-us-china-moving-factories-indonesia>, Accessed August 28, 2020.

In other hand for another country in Southeast Asia Nation such as Myanmar is attracted the foreign direct investment in their country. Due to over the years of the ongoing trade dispute, China has deteriorate deal of environment impact caused by the industrialization.<sup>178</sup> That extremely waste on the environment protection and the waste of labor course and the obstacle of investor. There are nearly US\$250 million (Bt8.4 billion) investment the Myanmar has approved by American companies. Oil and gas, insurance and information technology are the top three sectors to receive sum of US investment.<sup>179</sup>

Vietnam seen as the country in Southeast Asia that widely interested from the US-China trade war and Cambodia is also the one can picked up of FDI, the reason of trade war dislocation with inflows for the first half of 2019 up 9.4% on 2018's \$3.2billion record.<sup>180</sup>

#### **4.3. Increase exports for countries in Southeast Asia Nations**

Before trade war countries in Southeast Asia seems like not to have widely export products and goods, hence they didn't have the exactly major supply. Most of the domestic products was manufactured and used in their countries. The gross domestic products were seeming to be growing slowly. However even when the trade dispute was happened, it was giving the opportunity to those country to create and export the domestic products to US market. By replacing Chinese exports, Thailand can export more to the United States. Southeast Asia is the top agricultural exports from ASEAN to the United States include soybean oil (\$2.4 billion), forestry products (\$1.8 billion), and tree nuts (\$1.3 billion). ASEAN is also the top global rubber and palm oil exporter, responsible for 75% and 85% of

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<sup>178</sup> Ibid.

<sup>179</sup> Ibid.

<sup>180</sup> SIMON ROUGHNEEN, 2020, "The real winners in the trade war might be found in Southeast Asia," January 21, <https://www.lowyinstitute.org/the-interpreter/real-winners-trade-war-might-be-found-southeast-asia>, Accessed August 28, 2020.

global production, respectively.<sup>181</sup> As the example, The Thailand's integrated circuits such as computer and automobile parts would increase the manufacture supply chain in Thailand then the part of supply chain would export to US demand. And Thailand can export more to China replace the US exports to China. In 2017, In the agriculture and technology sector such as vegetables and fruit 25 percent, vehicles and parts 19 percent, fish and crustaceans 17 percent there are of Chinese imports.<sup>182</sup> The exportation of China can be diverted to Thailand. In this case, Chinese steel products are already dominated Thailand's market. Imports of Chinese steel-rolled sheets and steel bars amounted to 31 percent and 72 percent of total imports. Thailand export has been increased as in between 2013 and 2017, Thailand export the US increased 17 percent annually and share of US import of soybeans amounted to 36 percent in 2017.<sup>183</sup> There is not only in Thailand country, yet with other countries in Southeast Asia. Would bringing the export product even to United States and China as well. Southeast Asia countries gain from US and China diversify to ASEAN export. This causes both powerful country bring benefit to the Countries in Southeast Asian exports.

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<sup>181</sup> Invest in ASEAN, 2020, "Agriculture: Planting the seeds of progress," <http://investasean.asean.org/index.php/page/view/agriculture>, Accessed August 28, 2020.

<sup>182</sup> Bhanupong Nidhiprabha, 2019, "Impacts of the U.S.–China Trade War on ASEAN: Case of Thailand." *Asian Economic Papers* 166-188. Accessed August 28, 2020.

<sup>183</sup> *Ibid.*

## CONCLUSION

The US and China trade war is the warm tension of the biggest economic countries which is tit of tat using the strategy of imposing tariffs and quota to demonstrate their weakness to each other. In this thesis paper, it contained the most significant purpose of the risks toward Southeast Asia nations will face during and also the future from the spillover of trade war between the US and China. Moreover, the Southeast Asia nations also gain some advantages from the conflict of trade war of both titans. Beside of both main risks and opportunities toward Southeast Asia nations, there are also the basic information related to the head topic which are describing the general overview about the definition of trade war and several past histories that happened in the past similarly, for example, the Smoot-Hawley Tariff Act which was the past history of US facing the problem of overproduction and the President also extend the tariff. Additionally, the roots cause of trade war is also one part of this thesis to get into account, it is the primarily of the story that lead into the most tension with the specifically of timeline from the beginning of 2018 until 2020 including the process of negotiation of both US and China. It shows the reasons why the negotiation breakdown again and again and the result of the phase one deal to be exist. Before leading to the big main points of risks and opportunities individually of Southeast Asia nations, this paper also discusses several issues on global because of trade war.

Individually, Southeast Asia nations such as Cambodia, Vietnam, Malaysia, Thailand and others are the side effect from the spillover of the US and China trade war during the last two years and haft from 2018 to 2020. Future predictions of the risks might be face from the trade war tension on economic and diplomatic in every countries containing Southeast Asia which caused them allays difficulty face to face because of their own interest during this trade dispute. On the other hand, behind the risks which Southeast Asia nations met, they also grab



the opportunities from the dispute between the United States and China like the flow of investment from China into Southeast Asia nations which have high potential to make the investor interest in their countries. The relocation of any companies might be increase in the Southeast Asia nation because of the struggling of US and China trade war.

To sum up, this dissertation is mainly focus on risks and opportunities that Southeast Asia nations will face during the US-China trade war. There are many risks and opportunities that impact to Southeast Asia nations since the trade war started and some future impacts, then including also some information related to the US-China trade war.

## RECOMMENDATION

As we are researchers for this thesis topic, we found out some recommendations for Southeast Asia countries that they should act and behave during the US-China trade war. In order to maintain the relationship with the ASEAN community and also the relationship with both the US and China. We provide two recommendations for Southeast Asia countries during the US-China trade war. For the recommendation below, we recommend based on risks and opportunities that Southeast Asia will be faced.

- Maintain soft diplomacy

It cannot deny that, every nation has their own foreign policies, particular the principle of noninterference and non-bias, however, when it comes to real practice, it is quite hard not to take side, especially for those nations who are still under developing or poor, the superpower might put pressure politically toward them. In this regards, those nations shall focus on maintain good relations even they might face some criticisms from those superpower countries.

As it not be denied that some superpower such as the United States always expresses their concern over particular nations, such as Cambodia, Myanmar, Laos, as they fear that China might nominated this power within all these countries.

- Alliance Bias

This situation refers to every country in Southeast Asia should avoid alliance bias with both countries the US and China. Being alliance bias is good, because it provides advantage to the ally country, but due to trade war between the US and China, if Southeast Asia countries being alliance with one country, another one will mark Southeast Asia countries as an enemy. As we know both China and the US is world largest economic, so being an enemy with the

giant economic, Southeast Asia countries will be facing many risks, not only to their economic, but also diplomacy and securities risk to their own countries.

- Keep Unity within ASEAN nations

One Vision, One Identity, One Community<sup>184</sup> is well-known as ASEAN Motto , and this momentum is very important for all the countries in ASEAN and this is what all ASEAN nations need to ensure during the hot trade war periods since there will be countries who could have benefit while there also countries who lose benefits during this war. So in order to make sure ASEAN moving forward with strong unity. All ASEAN nations need to strengthen their foreign policies toward each other.

- Maintaining relationship between the US and China

During the US-China trade war, Southeast Asia countries should maintain their relationship with both countries the US and China. It is a great opportunity for Southeast Asia countries to maintain their relationship with them. As the US impose tariff on China and China impose tariff on the US, Southeast Asia countries can get benefit from both countries, due to investors or industry firms is more likely to relocate their location, in order to avoid tariff charge on their imported and exported products. For the other reason, both the US and China can import the product form Southeast Asia countries, in order to replace the products that both countries cannot import with each other due to high tariff.

- Warm welcome for foreign direct investment

Due to high tariff between the US and China which they impose on each other imported products, Investors will relocate their location. Southeast Asia countries should open full hand and warm welcome for foreign direct investment. More investment provides more jobs for

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<sup>184</sup> ASEAN, "ASEAN Motto," <https://asean.org/asean/about-asean/asean-motto/>, Accessed August 28, 2020.

Southeast Asia countries, which can boost and increase their GDP, and decrease unemployment rate. It is also a good chance for least developed countries to duplicate the foreign technology and strategies to develop their own country.

- Improve law of protecting intellectual property right/investment protection

Most least developed countries in Southeast Asia nations are lacking of law to protecting the intellectual property right, which make innovators and investors are more likely attract them to invest. Even it admitted that trade war is not a good period, however, if ASEAN nations could be strengthening their regulations to protect the investors, there will be opportunities to attract a lot more FDI into the regions since the companied in US and China are relocated and finding a better place for their investment

- Transfer risks into opportunities

Trade war has been affected both good way and bad way to almost all he regions around the world, nations cannot escape from that but to live with this war, in according to this reason, nations in ASEAN, particularly, those nations who economy depending on labor area should take it opportunities to attract more investor from U.S and China who are trying to relocated their companies throughout the world

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