Ripple Effects of Escalating US-China Trade War on the Region

On 17 September, US-China trade war escalated again when President Trump imposed 10% tariffs on $200 billion of Chinese goods and further to 25% at the end of the year. China’s manufacturing industry has been hit hard and more manufacturers are preparing to move some of their production chains or factories to Southeast Asian countries such as Malaysia, Vietnam and Cambodia for their cheaper labour. Some China-based foreign enterprises which have huge production share and gained immense profits from the Chinese market are also planning to withdraw from the Chinese market gradually.

The United States is also in the process of negotiating with major global economies, namely, the European Union, Mexico, Canada and India on trade agreements separately, which would realise Trump’s objective of converting free trade to fair trade by making deals bilaterally.

Scholars speculated that there are three aims to Trump’s negotiation with China: reduce tariff and non-tariff barriers in the domestic market, stop mandatory technology transfer for joint venture companies and cease subsidies offered by the Chinese government to manufacturers. With these, the United States hopes to maintain its supremacy in the global economic order by reconstructing a new order.

The United States is the largest consumer market and largest high-tech products provider and has every plan to remain so. EAI scholars concluded that US trade deficit is the biggest pre-context for the trade war escalation while technology supremacy and state capitalism are mainly targeted by Trump on China.

China’s conglomerates scaled back global assets

EAI scholars pointed out that the change in China’s outbound investment regulations has restricted capital flow overseas and forced conglomerates to sell properties to solve cash fluidity issue. In 2017, China’s State Development and Reform Commission issued Measures for the Administration of Overseas Investment of Enterprises which took effect in March in the same year. It designated areas for Chinese enterprises to invest in such as high-technology, infrastructures, and highlighted discouraged areas for overseas investment such as real estate, entertainment, hotels, sports clubs and so on. Channelling funds back to China also helps to stabilise China's foreign reserves, which is more of a political decision than a business choice.

Further, Chinese outbound investment has received stronger pushback from overseas as the West are wary of risks of transferring core technologies to China through its overseas purchase. China has been challenged by a stricter scrutiny of its outbound investment in foreign destination countries. Some Chinese companies are withdrawing their outbound investments to regain fluidity in order to sustain business operations.