The U.S.-China trade war: Implications on the global economy and Thailand

In recent periods, the U.S. implemented international trade policies more inclined towards protecting its own trading interests, in order to restore its manufacturing sector and support domestic employment. Various measures relating to this included (1) tariff measures on goods imported from many countries, such as tariffs increase on steel and aluminum imports (2) tariff measures on goods imported from certain countries, such as tariffs on 3,607 items imported from China, with a total value of 250 billion U.S. dollars, and (3) non-tariff barriers such as sanctions on major Chinese technology companies for national security reasons. Such measures weighed on global trade volume and merchandise exports of several countries including Thailand. Moreover, manufacturing, employment, and private investment in related industries were also affected. This article therefore aims to analyze the impacts of trade protectionist measures on the Thai economy through the following channels.

1. Impacts on merchandise exports

Over recent periods, growth of Thai merchandise exports value continued to decline. After a high expansion of 12.4% in the first half of 2018, exports value in the first quarter of 2019 contracted by 4.0% (Chart 1), which was the first contraction in 11 quarters. This was due to the impacts of trade protectionist measures between the U.S. and China. Although the U.S. did not directly raise tariffs on Thai imports, Thai merchandise exports were nevertheless affected through three main channels as follows:

1.1 World trade volume effect

Trade protectionist measures were the main reason for slowdown in global trade volume and Thailand’s trading partner economies. This factor contributed 2.9% to the contraction in Thai exports value in the first quarter of 2019 (light green and yellow bars in Chart 1). Meanwhile, the International Monetary Fund (IMF) assessed that trade tensions would weigh on confidence and global growth. The IMF thus revised down global trade volume forecast for 2019 from 4.1% to 3.3%. However, developments in the use of trade protectionist measures remained highly uncertain, as this situation

3/ Contribution to growth in Thai exports value can be decomposed into the following channels.
1. Electronics cycle: assessed from Thailand’s total electronics exports value (excluding exports to China)
2. Substitution effect: assessed from export values on items for which the U.S. imposed tariffs on China, allowing Thailand to increase market share (compared to 4-year average) at the expense of China
3. Supply chain effect: assessed from Thai exports value that contribute value-added to tariffed Chinese goods exported to the U.S. Value-added were calculated using the structure of inter-country input-output table (ICIO)
4. Chinese demand slowdown: assessed from the residual of Thai exports value to China after accounting for the supply chain effect
5. Slowdown in economic and global trade volume: assessed from exports value of other items not included in the aforementioned categories.
4/ Forecast as of April 2019
could be prolonged or intensified. As a result, firms delayed production and investment in order to wait for more clarity. This was reflected by continuous declines in the Manufacturing Purchasing Managers’ Index (PMI), particularly new orders for capital goods. Deceleration in advanced economies’ manufacturing sectors were followed by deceleration in the exports value of Asian economies’ intermediate goods (Chart 2). Moreover, trade protectionist measures partly contributed to a prolonged downturn in the electronics cycle, as well as sluggish recovery in global and Thai electronics exports. This factor contributed 1.3% to the decline in the Thai exports value in the first quarter of 2019 (orange bar in Chart 1).

1.2 Supply chain effect

Trade protectionist measures subsequently impinged on the exports of countries integrated in U.S. and China’s supply chains. This was because most goods being tariffed were manufacturing goods with high linkages to many countries. Examples of such goods were electronics parts, auto parts, machinery, petrochemical, and chemical products. The production of these exports products required intermediate and capital goods imports from other countries. Countries most affected by this channel were small Asian economies with high linkages to China, namely Taiwan, the Philippines, Malaysia, Korea, Singapore, and Thailand (Chart 3). The supply chain effect contributed 0.1% to the contraction in Thai exports value in the first quarter of 2019 (black bar in Chart 1), with the most affected categories being electronics and optical instruments.  

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5/ Thailand is confronted with the supply chain effect in both direct and indirect ways. The direct effect is via a decrease in Thai exports to China. The indirect effect is via a fall in Thai exports to other countries, owing to the decline in their exports to China.
1.3 Substitution effect of Thai exports in place of Chinese goods in the U.S. market

A decline in U.S.-China trade may create an opportunity for Thailand to export more to the U.S. market in place of China. Products which benefitted from this channel were auto parts, integrated circuits, and machinery for rubber and plastics production. This factor helped offset a contraction in Thai exports values in the first quarter of 2019 by 0.5% (dark green bar in Chart 1).

Going forward, trade protectionist measures will likely be prolonged or escalated owing to (1) additional tariff measures which the U.S. could levy on the remaining Chinese imports, with a total value of 300 billion U.S. dollars, as well as tariffs on auto and auto parts that the U.S. might impose on other countries, (2) tariffs could be increasingly used as a bargaining tool for non-trade issues, such as illegal immigration between the U.S. and Mexico, and (3) non-tariff barriers (NTBs) could be employed more often, such as the case of the U.S. identifying Chinese technology companies as a threat to national security. Consequently, international trade outlook will remain highly uncertain. It may also be an important risk which might impinge on global trade volume and trading partner economies more than previous assessment by other organizations. Thus, firms should stand ready to make timely adjustments in response to possible changes. For instance, adding product value could help firms to reap greater benefits from substitution effect. Moreover, firms should explore new export destinations to diversify impacts from China’s supply chain effect. This could be done by exporting raw materials to other countries which manage to gain shares in U.S. markets in place of China.

2. Impacts on domestic traders

Trade protectionist measures also affected traders in Thailand, as China may dump products which were not exported to the U.S. in the Thai market. An analysis of imports from China and the similarity index\(^6\), indicating product categories most prone to Chinese dumping, reveals some signs of dumping from China. However, the signs are still vague. Chinese imports value accelerated in some product categories, including aluminum structures, air conditioners, vehicle parts, textiles, and electronics. Nonetheless, Chinese imports of these products accounted for less than 1% of total imports value. Nevertheless, should the U.S. decide to impose additional tariffs on Chinese products with a total value of 300 billion U.S. dollars, China may further dump their products. Then, impacts on Thai firms would be more prominent owing to these firms’ lack of price competitiveness in these product categories. Meanwhile, domestic consumers would be able to purchase imports at lower prices, but should also consider product quality issues all together.

3. Impacts on domestic manufacturing and employment

In case global trade deteriorated with significant effects on Thai exports, it may consequently lead to production and employment cuts in Thailand’s manufacturing sector, particularly the export-related industries. Firms may eventually cut their employment or compensation of employees. In the first five months of 2019, there were some signs of production and employment cuts, particularly over-time employment in some export-related industries. However, some of these workers shifted towards services and trade sectors, which partially shored up overall purchasing power and consumption.

\(^6\) Similarity index is calculated from \(\frac{\text{Thai import value of product } \alpha \text{ from China}}{\text{Thai import value of all products from the world}} \frac{\text{U.S. import value of product } \alpha \text{ from China}}{\text{U.S. import value of all products from the world}} \times 100\), with high index value indicating that product “\(\alpha\)” stands a high chance of being dumped by China.
4. Impacts on private investment

Trade protectionist measures could benefit some countries thanks to investment diversion. Firms may decide to relocate production base away from China to countries with high potential for investment such as Vietnam and Thailand, to avoid impacts of trade tensions. Thai industries including rubber and rubber products, electrical appliances, automotive (including tyres and inner tubes), petrochemical products, and electronics, still maintain competitiveness in the global markets, as reflected by Thailand’s revealed comparative advantage (RCA) indicator (Chart 4). It is therefore possible that more firms in such industries will relocate production base to Thailand in the future. In recent periods, foreign direct investment in the electronics sector accelerated significantly (Chart 5). FDI from China increased continually since the fourth quarter of 2018, particularly rubber products, metals, and chemicals sectors, despite accounting for a small proportion of Thailand’s total FDI.

In summary, trade protectionist measures will likely pose impacts on the Thai economy through various channels, particularly the trade channel via reduction in merchandise exports and weakening confidence in many countries. This partly clarifies the zero growth of Thai exports forecast for 2019 from the high outturns in the previous year. Moreover, impacts through other channels also warrant close monitoring, including (1) Chinese dumping that could negatively affect domestic traders, despite limited impacts in recent periods, (2) production and employment in manufacturing sector, which may subsequently affect household purchasing power, and (3) benefits from foreign firms’ relocation of production base to avoid impacts of trade protectionist measures, as some Thai industries maintain competitiveness to attract this FDI.

7) RCA is calculated from the proportion of each product’s exports value in relation to Thailand’s total exports value, divided by the share of such product’s exports value in relation to total global exports value.