SAR to 'take a hit' in US-China trade crossfire

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With China and the United States seen hurtling toward a potential major trade war after the US threatened to slap import tariffs on $150 billion worth of Chinese goods, notably tech software and machinery, for alleged theft of trade secrets, a technology war has started in earnest, with Hong Kong likely to be embroiled in the "crossfire".  
Economists and Hong Kong businessmen are deeply worried that the brewing trade and technology conflict would curtail the SAR's economic growth this year.  
The US has fired the opening shot targeting one of China's multinational telecommunication giants, Shenzhen-based ZTE Corporation.  
The US Department of Commerce last month banned ZTE from buying any category of US technology for seven years for allegedly violating the terms of a sanctions settlement. Another leading mainland phone-maker Huawei is facing criminal investigation in the US for alleged illegal sales of technology to Iran, delivering a further blow to the top mainland original equipment manufacturer that is now being challenged in entering the US market.  
Responding to the US move, the Chinese Ministry of Commerce hit back by enforcing provisional anti-dumping measures on US grain sorghum. The mainland authorities, in turn, accused US companies of dumping grain sorghum on the mainland market, causing substantial damage to the domestic industry.  
The US says its proposed trade and investment sanctions against China are aimed at tackling the glaring US trade deficit with China estimated at $375 billion in 2017, coupled with allegations of intellectual property theft and forced technology transfers by Chinese enterprises.  
Louis Kuijs, head of Asian Economics at think-tank Oxford Economics, expressed concern that a full blown trade war between the country and the US would dent Hong Kong's economic growth by nearly 0.6 percentage point this year and up to 0.8 percentage point next year.  
"Within Asia, North Asia, including the Chinese mainland, Hong Kong, Japan, South Korea and Taiwan, would be harder hit than Indonesia, Malaysia, the Philippines, Singapore and Thailand or India because North Asia relies more on trade as growth drivers," he warned.  
Ng Wang-pun, president of the Chinese Manufacturers' Association of Hong Kong, said: "Hong Kong would feel the pinch as the city is a major trade intermediary between the Chinese mainland and the US, and the major bulk of bilateral trade between the two economies is through Hong Kong's re-exports."  
"Moreover, many Hong Kong manufacturers are part of the supply chains of mainland exports to the US. A trade war between the two countries must have an impact on the local trade sector that may diminish the city's good economic growth prospects," Ng warned, adding that the future of Hong Kong's small and medium-sized enterprises may be in jeopardy.  
The US Trade Representative is expected to make a final decision by the end of this month, to be followed by a 60-day consultation period, suggesting that tariffs could come as early as late July or early August.  
It's estimated that Hong Kong last year re-exported about HK$60 billion worth of products that may come under the new tariffs, amounting to some 20 percent of the total value of products the mainland exports to the US via Hong Kong, according to Secretary for Commerce and Economic Development Edward Yau Tang-wah.  
"Hong Kong's trade sector and economy will likely take a big hit should the trade row escalate," warned Carie Li, an economist at OCBC Wing Wang — the local banking arm of the Singaporean lender OCBC Bank.  
"Trade activities' contribution to Hong Kong's economy reached 18 percent in 2016. The city's exports to the mainland and the US accounted for 62.2 percent of its total exports, while imports from these regions took up 51.8 percent of total imports last year," she added.  
In Hong Kong, the value of total goods exports surged 9.7 percent in the first quarter of this year, compared to the period a year ago, while the value of goods imports rose 10.6 percent in the same period, according to the Census and Statistics Department.  
From January to March, Hong Kong's exports to the Chinese mainland hiked 12.6 percent from a year ago while the city's exports to the US posted a yearly 7.4 percent increase in the same period, CSD data added.  
The US has threatened to target annual Chinese imports worth $150 billion, with a 25-percent punitive tariff to be levied on mainland imports, particularly in robotics, aerospace, information and communication technology, and machinery, as the mainland seeks to achieve industrial upgrade in these sectors.  
The mainland has retaliated by slapping prohibitive tariffs on US imports worth $50 billion, including aircraft, soybeans and autos. It was the mainland's second round of retaliatory measures on US imports following an earlier round on $3 billion worth of US imports after the US said in March it would impose tariffs on imports of steel (25 percent) and aluminum (10 percent) from various countries, including China.  
"There's still a lot of uncertainty over the outlook of   global trade policies, and this could weigh on business confidence. More importantly, Asian corporations are well integrated in the network of global supply chains and depend largely on global trade," said James Cheo, senior investment strategist at Bank of Singapore — the private banking arm of the Singaporean lender OCBC Bank.  
"Asia is exposed to unfavorable shifts in US trade policy because of its volume of direct exports to the US, and also because of intermediate trade activity through supply chains in the region," said Marie Diron, sovereign risk group managing director at Moody's Investors Service.

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