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September 2018

MARMORE FIRST TAKE

U.S. - China Trade War & Implications for the GCC region



www.e-marmore.com



info@e-marmore.com

HIGHLIGHTS

- The U.S. President, Donald Trump rose to power on back of populist rhetoric measures such as leveling the playing field for U.S companies and demanding more usage of steel and aluminum sourced from America in autos. The rhetoric is transforming into reality as President Trump is renegotiating trade agreements and imposing tariff measures to fulfill his campaign promises.
- U.S and China, the two largest economies traded approx. USD 650bn worth of goods last year. However, the trading pattern is skewed with China exporting USD 506bn worth of goods to the U.S, while its imports from the U.S stood at USD 130bn in 2017. China's trade deficit with U.S stands at USD 376bn in 2017.
- To trim the trade deficits and make it balanced U.S sought a deal with China for enhanced market access, to open up its service sector foreign ownership limits, loosen technology transfer requirements for direct investments and increase U.S imports.
- In early July, the U.S. President Donald Trump followed through on months of threats to impose tariffs on China. So far, the U.S. has already imposed tariffs on USD 50bn worth of Chinese products, and has threatened tariffs on USD 467bn more. China, for its part, has matched the U.S. tariffs dollar-for-dollar, and is threatening qualitative measures including scaled up health, safety and tax checks, delaying the import of goods, and boycott of U.S. goods that would affect U.S. businesses operating in China.
- There has been a constant back and forth between the two countries starting from March when Trump imposed tariffs on steel and aluminum imports. Since then, tariffs of 10% have been imposed by both countries repeatedly on various good with trade talks failing to reach any agreement. Meanwhile, Chinese currency has depreciated by almost 9.5% since April this year, thus negating the impact of 10% tariffs. Trump, on the other hand, has threatened to increase the tariffs to 25%, if China keeps retaliating.
- The issue assumes prominence as both the countries are global superpowers with massive reserves at their disposal and wield significant advantage over each other. Neither will be backing out easily and tit-for-tat measures in a contest of power struggle could impede global growth unless the situation is resolved.
- Though the current value of traded items that are subjected to tariffs is relatively small, the prospect of other countries being pushed to take sides could broaden the scale of trade wars and the resultant spillover effects would be felt all over including the GCC region.
- The impact of trade wars would be most felt in the economic growth and immediately felt in the equity markets. The former due to dampening of economic activity as demand for exports fall and the latter as increased risk aversion would lead to withdrawal of capital from risky assets. As most of the GCC markets are either classified as frontier / emerging markets, we could witness capital outflows from the region.

- The prospect of trade war could reduce the industrial activity and the threat of global recession looms large in the event of full-fledged trade war. In such a case, the demand for oil would subsequently fall.
- It is interesting to note that U.S oil exports to China that did not exist until 2016 have the potential to reduce the trade deficit with China. Further, U.S oil is much cheaper than the Brent. China imports approximately 30% of its oil demand from the GCC countries. The double whammy of intensifying competition and scope for reduced demand does not bode well for the GCC region.

Appendix

US - China Trade Dispute Timeline	
Jan 22	U.S. imposes tariffs of 30% and 20% on solar cell and washing machine imports
March 09	Trump imposes tariffs of 25% and 10% on steel and aluminum imports from all nations including China.
April 02	China responds to steel and aluminum tariffs by imposing duties on USD 3bn of U.S. imports including fruits, nuts, wine at 15% and pork at 25%
April 03	U.S. proposes tariffs on USD 50bn worth of imports for China's alleged abuse of Intellectual Property (IP)
April 04	China threatens levy of 25% on imports of soybeans, cars, chemicals and aircraft.
May 03-04	U.S.-China engage in trade talks in Beijing, where the U.S. demands that China reduce the trade gap by USD 200bn within two years. Talks end with no resolution.
May 28	U.S. accuses China of theft of technology and IP at the WTO.
June 15	U.S. announces tariffs on USD 50bn from China with Trump threatening more if China retaliates. China responds in kind.
June 19-21	U.S. threatens to put 10% tariffs on USD 200bn of Chinese goods, and levies on an additional USD 200bn, if China retaliates. President Xi Jinping vows to hit back.
July 06	Tariffs begin on USD 34bn of Chinese imports.
Aug 02	Trump threatens to hike proposed tariffs to 25% on USD 200bn of Chinese imports.
Aug 23	Tariffs begins on USD 16bn of Chinese imports. Beijing responds with USD 16bn levy on U.S. imports.
September 24	Tariffs of 10% on USD 200bn of Chinese goods to begin. Tariff to rise to 25% in 2019.

Source: Bloomberg, US Census Bureau

Top Five items traded between the U.S and China

China Exports to the U.S		China Imports from the U.S	
Computers	12.0%	Soybeans	11.0%
Broadcasting equipment	8.5%	Planes, helicopters, and spacecraft	10.0%
Telephones	2.6%	Cars	8.5%
Office machine parts	2.4%	Integrated circuits	5.7%
Video displays	2.0%	Medical Instrument	1.9%

Source: Observatory of Economic Complexity, MIT

China's Top Providers of Imported Crude Oil

Rank	Country	Value (USD billions)	% of total imports
1	Russia	14.89	15%
2	Saudi Arabia	13.89	14%
3	Angola	12.26	12%
4	Oman	10.05	9.9%
5	Iraq	9.53	9.4%
6	Iran	8.37	8.2%
7	Kuwait	4.32	4.2%
8	Venezuela	4.04	4.0%
9	Brazil	3.99	3.9%
10	UAE	3.46	3.4%

Source: Observatory of Economic Complexity, MIT

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About marmore

Our vision

To be the first choice for obtaining strategic intelligence on the MENA region.

Our mission

Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making

Our aim

Advocate intellectual research on MENA economics, businesses and financial markets and provide customized, actionable solutions.

Our foundation

- A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- Markaz research activities commenced in 2006
- Marmore established in 2010 to intensify the research activities
- Publishes research reports and provides consulting services

Published research

Industry research

Marmore's industry reports provide information on industry structure, key players, market analysis, demand drivers, competitive analysis and regulatory requirements.

Economic research

These reports are produced as thematic discussions based on current issues in the economy. The reports aid key stakeholders such as investors, businessmen, market participants, and policy makers in understanding the impact of a particular theme on the economy.

Infrastructure research

Infrastructure research highlights bottlenecks in the sector and areas requiring urgent investments. Our infrastructure report analyses the link between economic development and infrastructure and showcases supply & demand challenges in the GCC and investment opportunities.

Capital market research

Capital market reports provide an analysis of stock & bond markets in the MENA region including outlook. These reports are strategic in nature and provides investment perspective to readers.

Policy research

Marmore has partnered with several leading thought leaders and institutions of repute to generate economic policy research studies in key areas like energy, labor, economic structure and public sector.

Periodic research

Our periodic reports capture GCC stock markets' earnings, risk premium studies, and economic development & outlook.

Regulatory research

Our regulatory research series is an effective consolidation, analysis and summary of key business, economic, and market regulations that impact business environment.

Consulting services

Marmore provides customized consulting services based on specific requirements of our clients. Marmore's bespoke consulting services marries the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to our clients' needs.

What type of consulting services we provide?

- Industry market assessment (market size, competitors, regulations)
- White label reports (industry reports, company newsletters, periodic research)
- Databases (competitors' information, target clients insights)
- Company valuation (buy/sell side advisory)
- Due diligence / Business evaluation
- Feasibility studies (market and financial)
- Business plans
- C-Suite support to leaders with intellectual, industry related needs

How do we execute consulting engagement?

Our seven step process to execute consulting engagements:

- Step 1: Requirement and scope analysis
- Step 2: Proposal submission
- Step 3: Project initiation
- Step 4: Fieldwork / research
- Step 5: Analysis & reporting
- Step 6: Review & approval
- Step 7: Report submission / presentation

