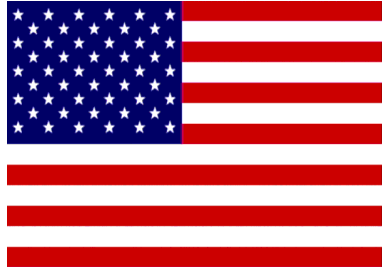




# **2019 MBAA International Conference**

**March 27 – 29, 2019  
Chicago, Illinois**



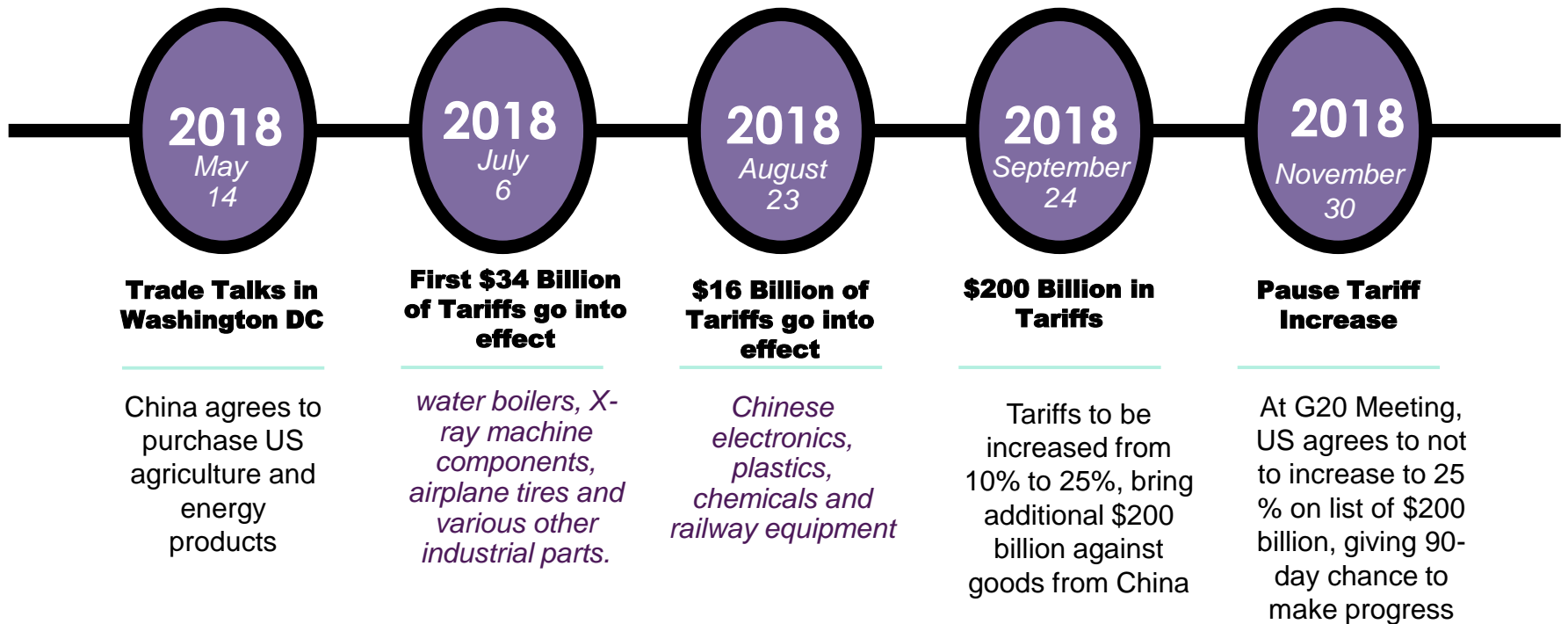
# Effects of Tariffs on U.S.-China Trade



中美總商會

**Siva Yam, CPA, CFA**  
**President, U.S.-China Chamber of Commerce**

# U.S.-CHINA TRADE WAR TIMELINE



# WHAT HAS CHANGED TO THE WORLD ECONOMY?

## Increasing Globalization in the Last Four Decades

- The Fall of the Berlin Wall
- The Opening Up of the Door of the Great Wall
- Advent of micro chips and internet, robot, AI ...

*Economy has become globalized not just because of the change in country policy but because of the advent of computing technology.*

# IMPACT OF GLOBALIZATION AND INFORMATION TECHNOLOGY

- Freer flow of goods and capital
- Internet has made multiple channels of marketing feasible
- Reallocation of resources whereby production of goods with high labor content and ease of shipment shifted to emerging countries

*Computer and internet have empowered consumers and enabled outsourcing to other countries. Before the internet age, it was expensive to ship a blue print overseas. Now it costs \$0 and takes a minute.*

# IMPACT OF GLOBALIZATION AND INFORMATION TECHNOLOGY

- Consumers are demanding for the lowest possible price of goods
- Customers are not accepting dual pricing from suppliers, i.e., you can't charge two different prices for the same parts
- Quality, timely delivery are taken for granted
- In many instances, suppliers are given price target and competing in an open bid environment

# EVOLUTIONARY REVIEW OF CHINESE ECONOMIC SYSTEM

- 1949 – 1971: Closed Door
- 1972 – 1978: Import Substitution
- 1978 – 2001: Export Orientation
- 2002 to Present: Going Out

*Chinese government has encouraged Chinese companies to go out to learn technology, acquire brands, and secure sales and marketing.*

*Unfortunately, the strategy has not been successful. Most overseas acquisitions have proven to be failure. Most Chinese companies end up in real estate speculation.*

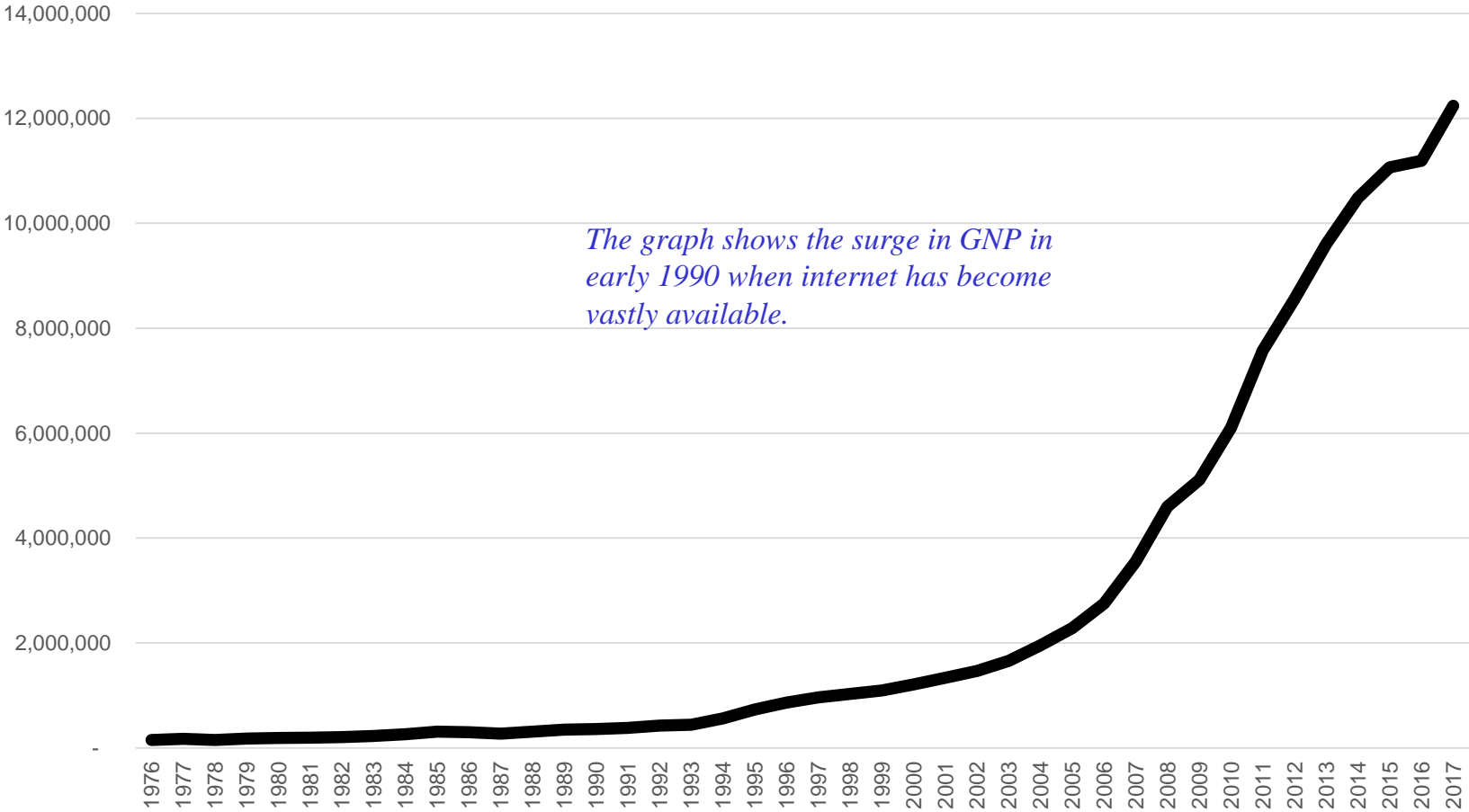
# EVOLUTIONARY REVIEW OF CHINESE ECONOMIC SYSTEM

- Early Strategy: Three “Supplied”
  - ◇ Processing Supplied Materials
  - ◇ Processing In Accordance to Supplied Samples
  - ◇ Assembled Supplied Parts
- Market Economy with Chinese Characteristics: Government’s Involvement and Requirements for FDI: - Technology Transfer; Local Content Requirements; and Export Quota
- Encouraged Chinese companies “Going Out”

*40 years ago, China adopted a strategy taking advantage of its huge, unskilled labor and the eagerness of foreign companies going to China. There have been very little innovation or break through invention.*



# GROSS NATIONAL PRODUCT (In Million US Dollars)

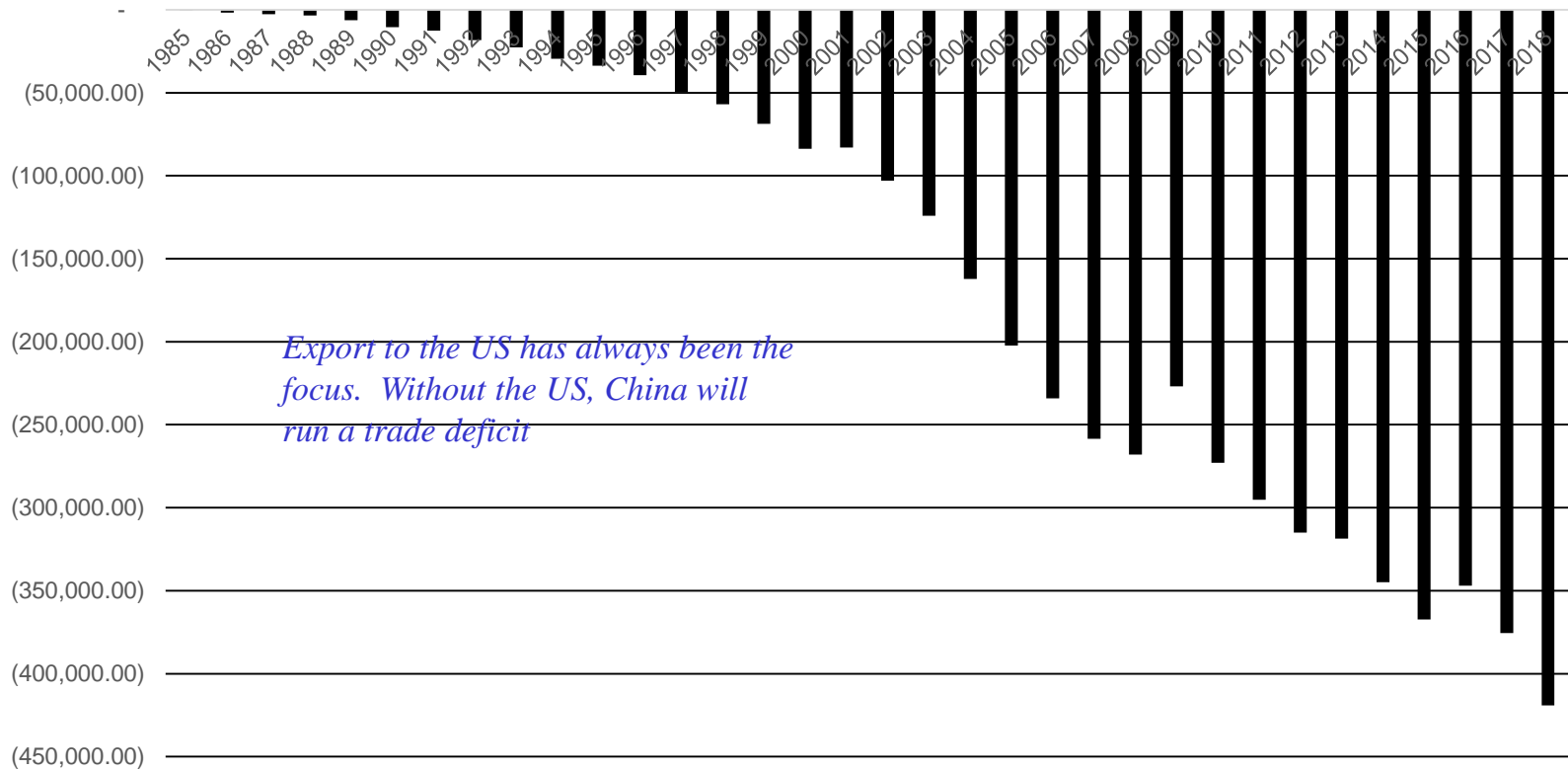


Source: World Bank

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# U.S.-CHINA TRADE BALANCE

## (In Million US Dollars)



Source: U.S. Census Bureau

# TOP EXPORT MARKETS FOR CHINA

- United States: US\$479.7 billion (19.2% of total Chinese exports)
- Hong Kong: \$303 billion (12.1%)
- Japan: \$147.2 billion (5.9%)
- South Korea: \$109 billion (4.4%)
- Vietnam: \$84 billion (3.4%)
- Germany: \$77.9 billion (3.1%)
- India: \$76.9 billion (3.1%)
- Netherlands: \$73.1 billion (2.9%)
- United Kingdom: \$57 billion (2.3%)
- Singapore: \$49.8 billion (2%)
- Taiwan: \$48.7 billion (2%)
- Russia: \$48 billion (1.9%)

*US is the largest export market for China and the country that China reports the largest surplus and earns its foreign currency.*

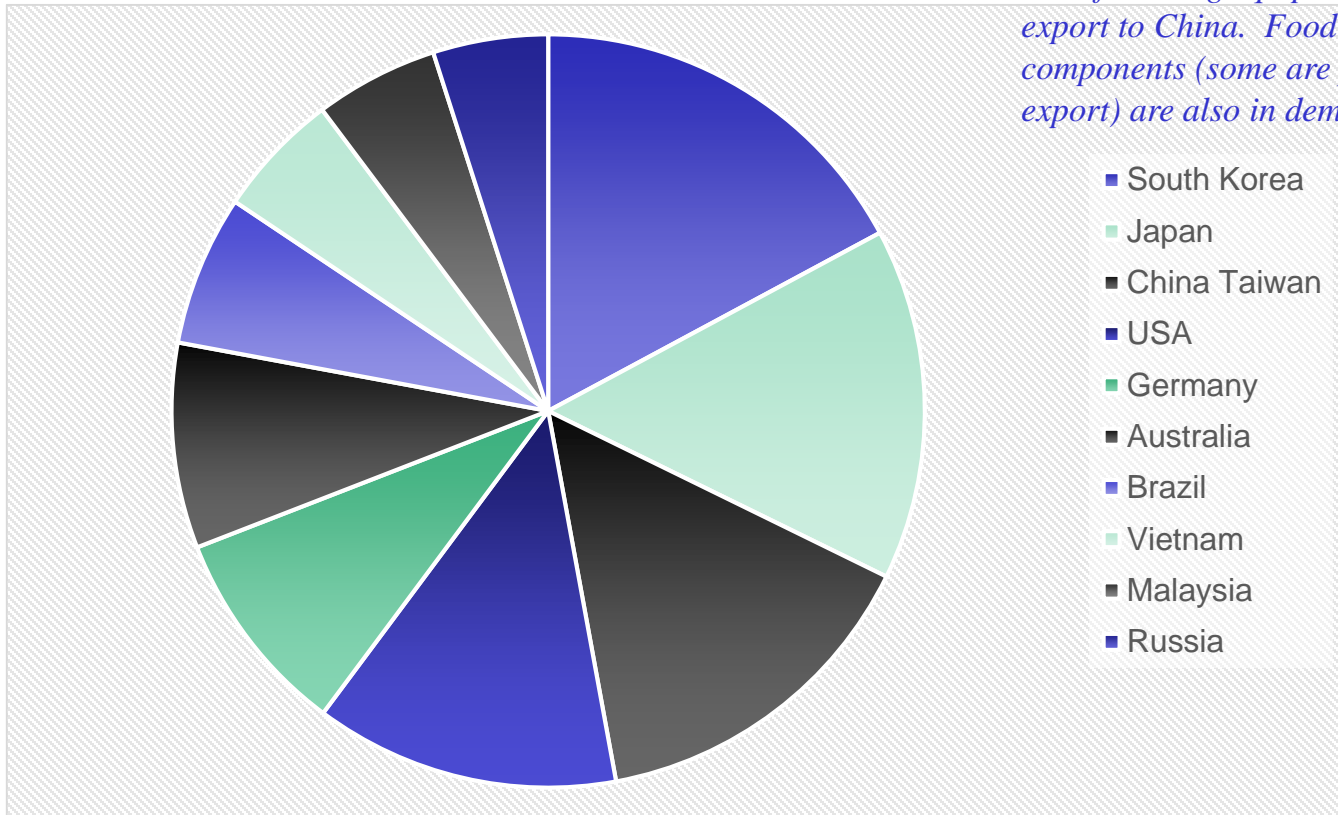
# MOST VALUABLE PRODUCTS IMPORT PRODUCTS INTO CHINA

<b>1</b>	<b>Integrated circuits/microassemblies</b>	<b>\$312.7 billion</b>	<b>+19.7%</b>
<b>2</b>	<b>Crude oil</b>	<b>\$239.2 billion</b>	<b>+46%</b>
<b>3</b>	<b>Iron ores, concentrates</b>	<b>\$75 billion</b>	<b>-1.9%</b>
<b>4</b>	<b>Petroleum gases</b>	<b>\$50 billion</b>	<b>+51.6%</b>
<b>5</b>	<b>Cars</b>	<b>\$49.6 billion</b>	<b>-0.7%</b>
<b>6</b>	<b>Phone system devices including smartphones</b>	<b>\$48.9 billion</b>	<b>+2.3%</b>
<b>7</b>	<b>Gold (unwrought)</b>	<b>\$45.8 billion</b>	<b>-10.9%</b>
<b>8</b>	<b>Soya beans</b>	<b>\$38.1 billion</b>	<b>-3.9%</b>
<b>9</b>	<b>Liquid crystal/laser/optical tools</b>	<b>\$33.8 billion</b>	<b>-9.4%</b>
<b>10</b>	<b>Copper ores, concentrates</b>	<b>\$32.7 billion</b>	<b>+21.7%</b>

*Electronic circuit boards, micro-chips and natural resources are major import items into China.*

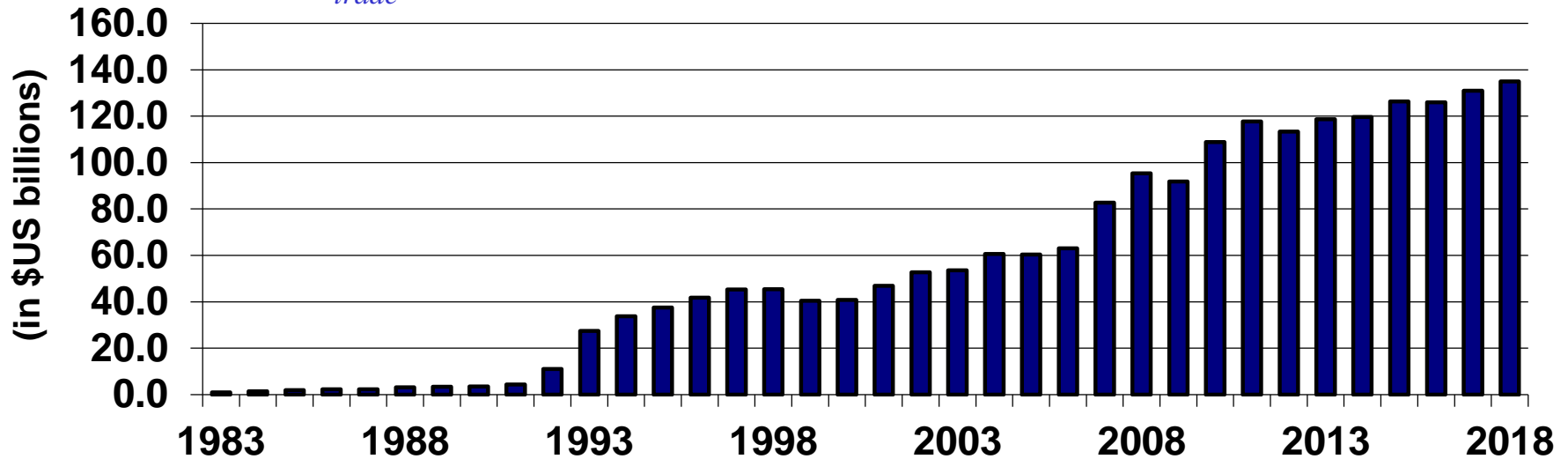
# TOP TEN COUNTRIES EXPORT TO CHINA

*As China builds its manufacturing infrastructure, countries that sell manufacturing equipments do well in export to China. Food and electronic components (some are parts for re-export) are also in demand.*



# TOTAL REALIZED FDI IN CHINA 1983-2018

*As China exports exponentially  
increased in early 90s, FDI followed  
trade*



Source: Chinese Ministry of Commerce

# EFFECTS OF TARIFFS

- Complex because of:
  - Globalization
  - Advanced computing technology, communication, and logistics
- Short Term:
  - Trade Substitution: Import vs Local
- Intermediate Term:
  - Trade Relocation
- Long Term:
  - Change in geopolitical landscape

*Trade is a complex subject. Even before the US-China trade dispute, companies began investigating other countries outside of China for opportunities. The dispute has prompted many companies to pick up the pace.*

*In the short term, US companies are looking for trade substitution. However, only a very small percentage (<6%) is looking to move back to the US. Countries that benefit are those that have the supply chain such as Malaysia, Taiwan and others. In the intermediate term, Vietnam and other will be the beneficiaries. The danger for Vietnam is that it has grown so fast and overemphasized in real estate development. In the long term, this will be come very complicated and may the change the dynamics of the geopolitical landscape.*

# WHAT IS THE FUTURE?

- Japan: 1950-1990
- Four Little Tigers (Dragons): 1965-2005
  - Hong Kong
  - Singapore
  - South Korea
  - Taiwan
- China: 1980-2020
- Southeast Asia: 2015-2055 (?)
- India (?); South America (?); Africa (?)

*Business goes in cycle. Will China continue to be the manufacturing center of the world? Regardless, SE Asia is arguably the new focus. India, a powerful nation has not received the attention even though some of the most valuable companies in the world have their CEOs came from India. The political system in India has been and will continue to be an issue.*