

U.S.-China Trade-War Crossfire Threatens Asia

Japan, Australia and other economies fear impact of disruption of global supply chain

By Ben Otto in Jakarta, Rhiannon Hoyle in Sydney and Chieko Tsuneoka in Tokyo

From Japan's electronics to Australia's iron ore, the Asia-Pacific region's economies depend on selling parts and materials to feed China's export machine.

That is why the prospect of a deepening U.S.-China trade conflict has these nations worried about getting caught in the crossfire—even if some of them have sympathy for President Donald Trump's criticism of China.

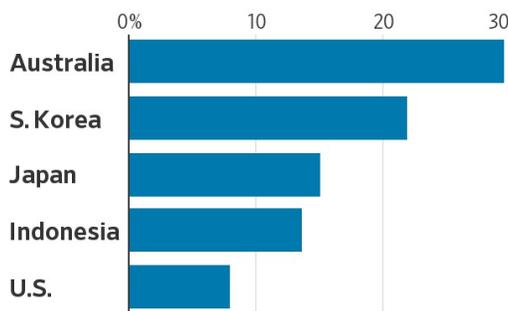
"It's not just the combatants themselves who suffer damage, it's the other countries too," said Shujiro Urata, a professor of economics at Tokyo's Waseda University and former World Bank economist.

Stocks have been gyrating on trade news, with Japan's benchmark index rising 2.65% Tuesday on signs that the worst scenario of a trade war might be avoided. Chinese and American officials have quietly started negotiating on ways to improve U.S. access to Chinese markets and reduce the trade deficit.

Dependent Relationships

Asia-Pacific nations rely more on exports to China than the U.S. does.

Percentage of exports of goods and services going to China, latest annual data



Note: U.S., Indonesia data for 2017; Australia for year through June 2017; Japan and S. Korea for 2016.

Source: Official statistics of each country

Global supply chains mean it doesn't take much for U.S. tariffs against China, or Chinese retaliation against U.S. goods, to ripple across the region. Mr. Trump last week imposed tariffs of 25% on steel from China and other nations, while exempting some U.S. allies, and threatened to impose tariffs hitting as much as \$60 billion in Chinese imports.

That raised alarms in Australia, which sends 30% of its exports to China. Each year's exports include some 700 million metric tons of iron ore and metallurgical coal, the main ingredients in steel, as well as copper for electronics.

"Any time there is the risk of the escalation of a trade war or tit-for-tat tariff increases, that has the potential to damage our economy very substantially," said Jim Chalmers, an Australian lawmaker from the opposition Labor Party.

Some of the effects of U.S.-China trade tension are already being felt. In January, Mr. Trump said he would place tariffs of up to 30% on solar panels, a measure aimed primarily at China makers whose low-price panels have gained market share globally. The move hurt some other panel makers such as the Singapore factory of REC Solar Holdings AS, which runs one of the largest solar cell factories outside of China and sent almost a third of its solar panel shipments through the first three quarters of 2017 to the U.S.

"Because Singapore also makes solar panels, we also become collateral damage," Foreign Minister Vivian Balakrishnan of Singapore said earlier this month.

Mr. Balakrishnan told a forum last week that a cycle of retaliation would "undo the formula for peace and prosperity that has worked for 70 years."

The recent trade tensions have driven up the value of the Japanese yen, seen as a haven in times of turmoil, to its highest level against the dollar since around the time of Mr. Trump's election. That is hurting Japanese exporters of electronics parts.

The ripple effects aren't all bad for Asian nations.

If iPhones made by Apple Inc. contractors in China suffer from the trade conflict—still an open question—Vietnam could benefit because it is a major production base for Samsung Electronics Co., whose phones are the leading competitor to the iPhone.

Multinationals might seek to hedge their risks by reducing production in China, and Southeast Asia "would be the logical destination for this rebalance," said Alexander Feldman, president of the U.S.-Asean Business Council.

Meanwhile, China might buy more from the region if it follows through on its threat to retaliate against American products. Action against American soybeans, for example, could lift demand for substitutes such as palm oil products, a major source of exports for Malaysia and Indonesia.

"It's very early days and it remains to be seen how this 'trade war' plays out," said Hak Bin Chua, economist at Maybank Kim Eng in Singapore. "Higher tariffs on Chinese cars, for example, could boost Japanese and German car exports," he said, but U.S. tariffs on Chinese consumer electronics would likely have a negative impact on Singapore and Malaysia, as "the two Asean countries most plugged into the electronics supply chain."

In contrast to the U.S. moves, the region has been moving toward more free trade. Australia and China signed a free-trade deal in 2015, and Australian Prime Minister Malcolm Turnbull said his country's wine exports to China jumped 64% as a result.

Just this month, Japan, Australia, Singapore, Malaysia, Vietnam, New Zealand, Brunei and nations in North and South America signed the 11-country Trans-Pacific Partnership deal reducing tariffs. The U.S. had led the TPP talks under the Obama administration but Mr. Trump pulled out within days of taking office.

Asian nations have long been familiar with the Chinese practices Mr. Trump criticized, such as forcing companies to transfer technology as a condition for investing in China. That is particularly an issue for Japanese companies with advanced technology. Its auto makers have to tie up with Chinese rivals to get a foothold in the Chinese market.

Japan's trade minister, Hiroshige Seko, pushed the U.S. and European Union in December to issue a three-way statement that was a veiled attack on China, calling its state subsidies and other moves "serious concerns for the proper functioning of international trade."

Yet Mr. Seko's idea was to bring joint action at the World Trade Organization.

"We went to all the trouble of creating a global system at the WTO for rules-based solutions, and the U.S. led the way," said Junichi Sugawara, trade-policy expert at Mizuho Research Institute in Tokyo.

Even if the U.S. now achieves results through unilateral action, he said, "Japan would have to oppose it because it stands for protecting multilateral free trade."