

## Global investment event

### China retaliates against US tariffs, talks now likely

- ◆ The Chinese government has threatened to retaliate against recently announced US tariffs, with its own set of tariffs on USD50bn worth of US imports
- ◆ Chinese authorities have not specified when the tariffs will be implemented, saying the rollout would depend on when the US introduces its own tariffs. However, for the time being, they have signalled their willingness to negotiate
- ◆ As we have previously noted, there is a good chance that China will make some concessions in the coming weeks, which may help to calm tensions
- ◆ Assuming the Chinese tariffs are imposed, the overall impact on the US and Chinese economies is likely to be minimal
- ◆ For the time being, we have not altered our asset class views, which include an overweight stance on global equities. However, a potential breakdown of talks over the next month and the possible implementation of further measures are key risks. We continue to monitor the situation closely

#### What's happened?

The US recently announced tariffs on USD50bn worth of imports from China, covering 1,333 products at a 25% tariff rate. The Chinese government has threatened to retaliate. China plans to match the amount of US imports it targets, at an identical 25% rate, on 106 products, including soybeans, frozen beef, cotton, chemical products, and small aircraft.

The US has said it will consult with businesses within the next 30 days before making its final decision. In our view, China's somewhat tougher than expected response – including some commercially-important and politically-sensitive goods such as soybeans – is aimed at forcing the US to the negotiating table (Table 1).

#### What next?

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**Table 1: Top five US product exports to China (2017)**

Product	Value (USDbn)	Comments
Civilian aircraft	16.3	Tariffs limited to small aircraft
Soybeans	12.4	8 of top 10 US producing states are Republican-held
Passenger cars	10.5	US auto production center Michigan is a crucial swing state
Industrial machines	5.4	Exempt from potential tariffs
Crude oil	4.4	Exempt from potential tariffs

Source: US Census Bureau, HSBC Global Asset Management, as at 4 April 2018

As we have previously noted, there is a good chance that China will make some concessions in the coming weeks, which may help to calm tensions. For example, last month South Korea gained an exemption from recently announced US steel and aluminium tariffs by raising its quotas on US auto imports.

Potential concessions by China could include: increased services market access; enforcement of intellectual property (IP) protection or increased payments for US IP; reduced tariffs on certain imports of US products; an agreement to import more US products e.g. semiconductors, or liquefied natural gas as proposed by US Commerce Secretary Wilbur Ross.

## Potential impacts

Assuming the Chinese tariffs are imposed, the impact on the US economy is likely to be minimal. The tariffs affect roughly 38% of exports to China, but this represents only 3% of total US exports (in 2017). Also, for some products such as aircraft or soybeans, Chinese buyers may accept higher prices given the limited availability of substitutes in the global market.

For China, these tariffs may push inflation slightly higher (e.g. soybeans are an important pig feed), but affected goods only represent a fraction of total Chinese imports, so the overall impact is likely to be muted. The government may also counter adverse economic impacts by some policy support measures.

## Market considerations

For the time being, we have not altered our asset class views, which include an overweight stance on global equities.

The tariffs have yet to be implemented, and remain dependent on the outcome of the 30-day consultation period, providing room for the US and China to negotiate. There are major incentives for both sides of the table to reach an agreement.

We continue to monitor the situation closely and will communicate the potential implications of any further escalation in due course. A potential breakdown of talks over the next month and the implementation of further measures, potentially including more economically-damaging quotas and investment restrictions, are key risks. In this respect, the US are expected to announce restrictions on Chinese investments before late May. It will be important to monitor the Chinese response, should this happen.

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