

US-China Trade War and the effect on Supply Chain structure

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Foreword



▲ (圖 / shutterstock)

US-China trade war tariffs: An up-to-date chart

a. US-China tariff rates toward each other and rest of world (ROW)



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Three stages of tariffs on China

- **Stage 1.1, 818 items 34B (25%):** 化學品、汽機車、船舶、面板、光學儀器(2018.7) (Industrial and semi-finished parts)
- **Stage 1.2, 279 items 16B (25%):** 石化材料、鋼鐵製品、機械、電子電機(2018.7) (Industrial and semi-finished parts)
- **Stage 2, 200B, 5,745 items (10% → 25%):** 農漁畜、加工食品、化學、塑橡膠、機械、電子零件、光學儀器與零件、運輸設備 (2018.9) (Industrial and semi-finished parts, daily commodities)
- **Stage 3, USD 300B, 3,805 items,** cellphones, notebooks, pads, clothing, shoes, books, musical instruments (9.24.2019) (daily commodities)
- China counteracted the measures on tariffs, especially agricultural products

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Reasons for the Trade War - Economy

- Unfair competition under WTO regulation – As China entered WTO, Europe/USA/Japan knew China subsidies state-owned enterprises and strategic private companies like Huawei.
- US requests transparency of this unfair subsidy and China mutatis mutandis standards of developed countries
- **Huge amount of trade deficit:** In 2018, the deficit is \$420 billion, representing 48% of the total deficit;
- **Over capacity of China:** China uses state power to intervenes the market and subsidies the industry resulted in over capacity;

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Reasons for the Trade War – National Competition

- **IP stealth:** US believes China abuses free trade and fair policy to steal/force to obtain IP from US universities and companies
- **China is competitive in many areas** – 5G, MIC 2025, AI (Tiktok) – practice sanctions on Huawei and SMIC
- However China is still weak in fundamental sciences and materials, IC design and mfg, precision industry, medicine and biotech
- One belt one road challenges US int'l influences
- Suspicious of Xi



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Actions practiced by the US

- On 2017.8.14, President Trump signed a memorandum stipulated US trade rep. should activate an investigation under section 301 of the Trade Act of 1974 (unfair trade)
- On 2018.3.22, the report showed that China:
 - (1) Forces US companies to transfer technology by restricting foreign shareholding ratios
 - (2) Requests US companies to authorize technology under the market price ;
 - (3) Supports Chinese companies to invest in the US to attain the cutting-edge technology
 - (4) Uses the Internet to steal trade secrets of the US companies



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First Stage of Economic and Trade Agreement – 2020.8.15

- The agreement requests China to buy additional \$200 billion from the US but it seriously lags behind the schedule in agricultural and energy
- Because China was accused of hiding epidemic information, Trump did not regard the agreement to be important as before
- Negotiation was halted



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Characteristics of a Supply Chain



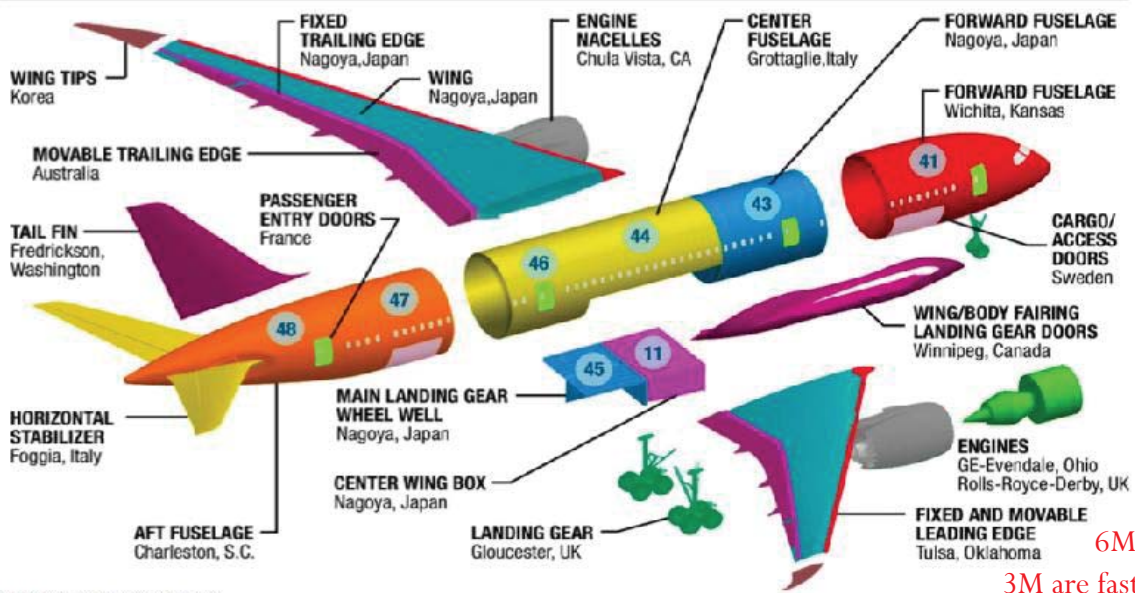
▲ (圖 / shutterstock)

日本野村總合研究所首席經濟學家辜朝明日前應財訊雙週刊邀請，出席「財訊影響力論壇」，針對當前局勢提出犀利而深入的觀察分析，以下為他的演講內容：
實際上，美國人過去有的是支持中國的，可是現在他們覺得他們被背叛了，被中國背叛了。

Supply chain is complex - Boeing

THE COMPANIES

U.S.	CANADA	AUSTRALIA	JAPAN	KOREA	EUROPE
Boeing	Boeing	Boeing	Kawasaki	KAL-ASD	Messier-Dowty
Spirit	Messier-Dowty		Mitsubishi		Rolls-Royce
Vought			Fuji		Latecoere
GE					Alenia
Goodrich					Saab



A Supply Chain Requires Agility and Collaboration



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SC Risk Sources



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Understanding where and how your supply chain could be vulnerable.....

Changes in Supply Chains



美中貿易戰越打越烈。(路透)

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What changes in supply chains

- China switches to domestic markets
- Problems of demographics dividend, raise of labor costs and structural costs mitigate the role of China to be the center of the world factory.
- Short supply chain – close to market instead of lowest costs is the current trend in supply chains.
- Line-minded countries form clusters of supply chains

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Shorter supply chain- speed trend of short and medium term

- Supply chain restructuring → shorter chain → world manufacturing migration.
- Energy / land / tax cost and technology makes the US competitive to produce
- US reshoring is going to last for 15 years
- Companies do not escape from China totally but reduce investment in China by moving back to the US and ASEAN.
- Supply from the US is happening.
- Two systems (China and the rest) in technology, regulations and industries – under current situation, is it possible?

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US, Japan, Europe & Taiwan – Forum on Supply Chain Re-structuring in July 4, 2020

- AIT announced to organize a forum – Supply chain restructuring: improving resilience amongst like-minded
「重組供應鏈：促進理念相近夥伴間之韌性論壇」
 - Promote like-minded partners to form new supply chains and to share common values and standards
 - Assure the safety of SC without being affected by politics
- What Taiwan can contribute: (1) Silicon Shield: TSMC / ASE; (2) Economic power and technology (hardware)
- Of the top 20 exporters from China, 16 are Taiwanese companies



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BTA b/w Taiwan and the US-the effectiveness

- The difference b/w BTA & FTA (bilateral vs free) – in the level of openness
- Easing rules on US pork and beef can get the ticket for further negotiation on trade agreement – for fair trade but not for exchange
- Benefit_1: Release tariffs and trade barriers
- Benefit_2: BTA with the US can help Taiwan gain int'l fair trade recognition – attract int'l investment
- Benefit_3: US companies work with Taiwan to restructure supply chain
- Taiwan moves from being marginalized (RCEP) to the focus of int'l investment (join CPTPP?)

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How different countries encourage their companies to move out of China

- Japan supports \$2.2 billion to help their factories to move back to Japan or to other ASEAN countries
- US supports all the costs to move factories out of China (back to the US?)
- France demands to have control over supplies of cars, medical supplies, space equipment etc.
- India provides tax incentives
- Taiwan provides tax incentives and one window service to speed up the process

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What happens after the coronavirus pandemic

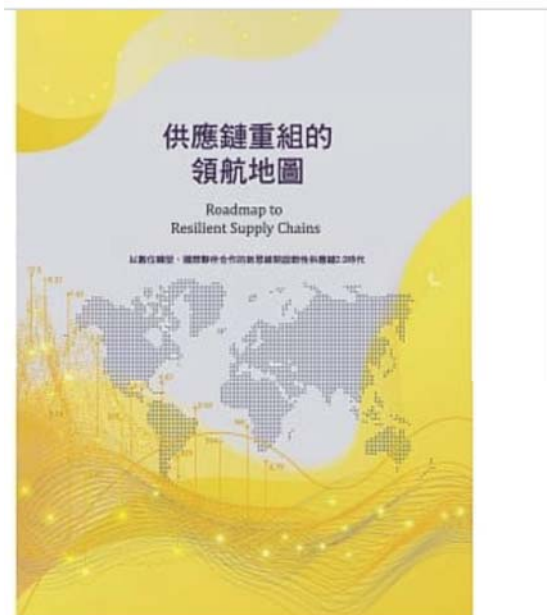
- Speed up the move of supply chains out of China – back to home country and to ASEAN – Japan, US, European countries (?)
 - Incentives are provided for the move
- First wave of industries - Medical related industries – pharmaceutical, medical devices and equipment
- Second wave of industries - Fundamental manufacturing-related industries

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What changes the WTO structure has

- WTO structure is to change – from global optimal deployment to local optimal, i.e., each local (e.g., US continent, EU, Japan) (with its alliances) have to be self-satisfied.
- The globe is to reduce its reliance on China – contradict with the lowest cost principle of operating supply chain
- New taxes and regulations might be imposed

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