Flash Economics

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If the United States does not impose tariffs on its imports from South-East Asian countries, China will be slightly penalised

The US has imposed tariffs on some Canadian, Mexican and European products (steel and aluminium) and on all imports from China.

However, It has not imposed tariffs on US imports from South-East Asian countries (Cambodia, Indonesia, Malaysia, the Philippines, Thailand and Vietnam). This leaves Chinese companies free to relocate their production to these countries or simply transit their exports to the United States through them.

This behaviour, which is clear in the US import figures, will greatly reduce the severity of the penalty imposed on China by the tariffs introduced by the Trump administration on US imports from China.

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Tariffs on products imported into the United States from Canada, Mexico, the European Union and China

The United States has imposed tariffs on steel, aluminium and all products from China. It has also threatened to tax all products imported into the US from Canada and Mexico in the future, and to tax European wines and spirits.

Charts 1A/B/C show the structure of US goods imports.

Chart 1A
United States : Imports from Canada, Mexico and European Union (as % of total imports)

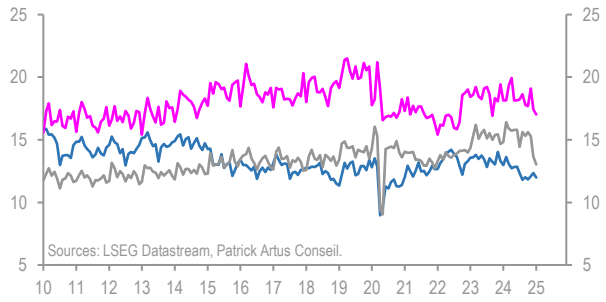
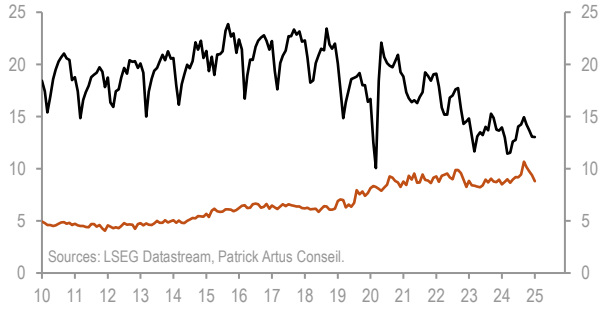
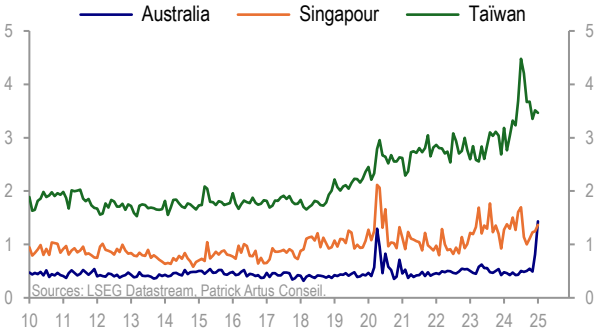


Chart 1B
United States : imports from China and South-East Asia* (as % of total imports)



(*) Cambodia, Indonesia, Malaysia, Philippines, Thailand, Vietnam

Chart 1C
United States : Imports from Australia, Singapour and Taïwan (as % of total imports)



For the time being, the US has no plans to impose tariffs on imports from South-East Asian countries.

This is surprising, given the size of its trade deficit in goods with these countries (Charts 2A/B).

Chart 2A
United States: Trade balance with Canada, Mexico and European Union (monthly data, USD bn)

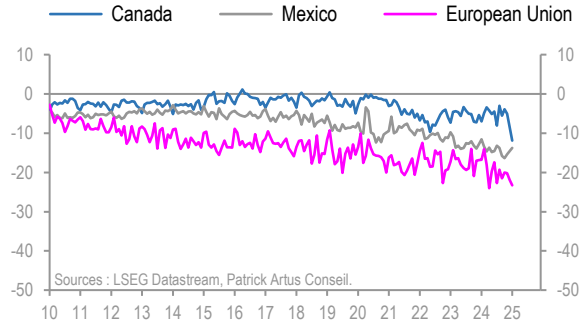
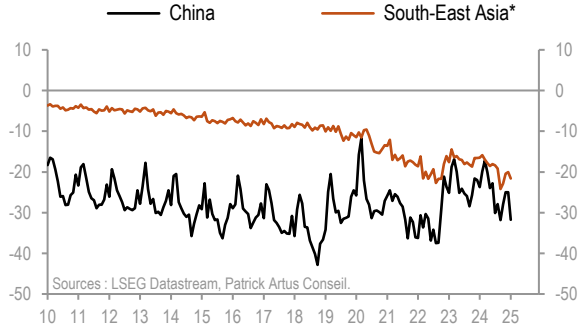


Chart 2B
United States: Trade balance with China, and South-East Asia* (monthly data, USD bn)

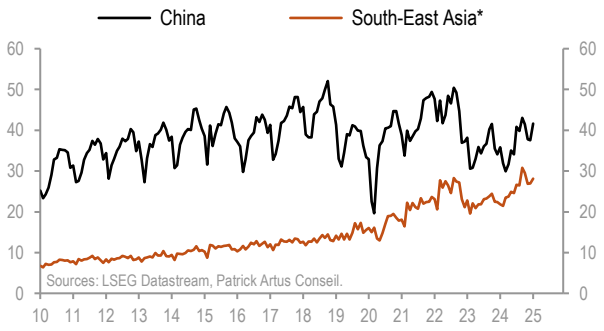


(*) Cambodia, Indonesia, Malaysia, Philippines, Thailand, Vietnam

What will be the effect if the United States keeps avoiding imposing tariffs on its imports from South-East Asia?

Since 2018, with the introduction of the first tariffs on Chinese products by the United States, we have seen **a decline in US imports from China**, but since then we have observed **an increase in US imports from South-East Asian countries**, similar in size to the decline in US imports from China (**Chart 3**).

Chart 3
United States : Imports from China and South-East Asia* (monthly, USD bn)



(*) Cambodia, Indonesia, Malaysia, Philippines, Thailand, Vietnam

We can therefore legitimately assume that China has either relocated production to South-East Asian countries or is simply transiting its exports to the United States via South-East Asian countries. If we look at **manufacturing output** (**Charts 4A/B**), since 2018 we have seen a very quick rise in output in Vietnam and in Malaysia, which may reflect the offshoring of industrial production from China, since it corresponds to a slowdown in China's industrial output (**Chart 4C**).

Chart 4A
Manufacturing production (2002.M1 = 100)

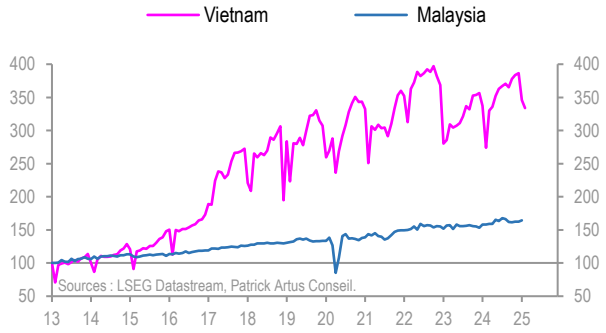


Chart 4B
Manufacturing production (2002.M1 = 100)

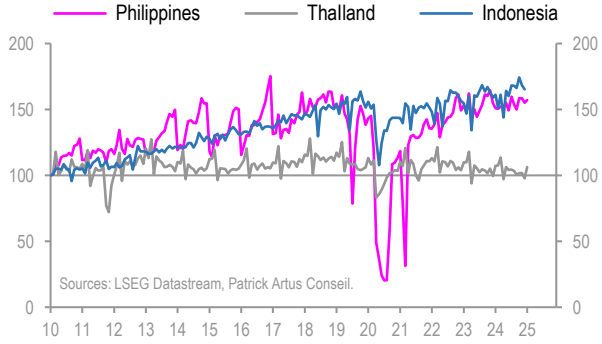
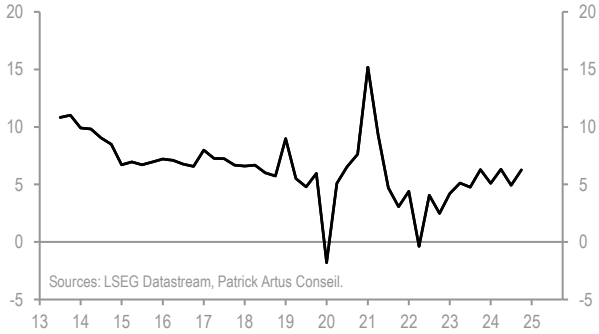


Chart 4C
China : Manufacturing production (Y/Y as %)



Summary: the ineffectiveness of US tariffs on products imported from China

We have shown that, as long as tariffs on US imports do not extend to South-East Asian countries, China would circumvent tariffs on its exports to the US by relocating the production of goods to South-East Asia or by simply transiting its exports through South-East Asian countries.

Canada, Mexico and the European Union do not have a similar opportunity to evade US tariffs.

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