

Spillover Effects of China-US Trade War on Southeast Asian

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Abstract. A trade war between China and us has started in 2018. China has been considered a threat by American politicians they are trying to use a trade war as a tool to contain China's high-speed development. However, China will not allow the US to be seized without putting up a fight. With the advance of the trade war, China and the US have had several rounds of confrontation by raising tariffs. It's hard to really say which side won the overall victory, nevertheless, the trade war between China and the US has diffused the whole world economic environment. In order to avoid the raised tariffs from the competitor, China, and the US transfer the import resources to the country that has lower tariffs on the same goods. The third-party country would attend the trade war by gaining the spillover effect of the trade war. Southeast Asia has eleven countries, such as Thailand, Cambodia, Vietnam, the Philippines, Malaysia, Singapore, Indonesia, and Timor Leste. Most of them have China or the US as their biggest trading partner. When China raises tariffs on a certain commodity to the United States, which may find the third country in order to replace China to evade tariff sanctions. The Countries in the Southeast become the optimal choice for the US. They also have low labor costs, close transportation routes, and many employment vacancies. Therefore, Southeast Asia has become one region in the world that has a spillover effect of the China-US trade war.

Keywords: US-China trade war; Spillover effect; Southeast Asia.

1. Introduction

The trade war between China and the US began at the midnight on July 6, 2018, when US President D. Trump proclaimed to set up additional tariffs of 25 percent on particular sorts of goods imported from China. For the following years, America and China were piling tariffs on different goods as a mighty response to the competitor. The move represents the beginning of the China-US trade war. China was charged by the United States with coercing it to transfer technology to China, stealing its intellectual property, and purposefully causing the United States trade imbalance to increase. The trade war has been around since China ended its isolation of the country and join the world trade organization. The high-speed development of China threatens what might otherwise be America's interest. The "Trade war" started in 2018 is just a flesh-out movement by ex-president Trump.

Spillover effects determined that events that seem unrelated to happen in one nation can have an economic impact on other nations. There can be positive spillover effects, for example, your neighbor takes care of a nice garden, and you can also gain the advantage of enjoying the nice out picture of it. However, the term is often invited where negative effects are excited, especially in economics. Pollution is one of the common examples that is frequently used in the spillover effect. A factory produces a form of product and sells weights, but it also emission of harmful gasses into the air. Although the nearby residents are not the one to produce or sells the products, they are paying for the worsened air quantity and increased health problem. According to this case, we can easily find out that the spillover effect came with a compelling force.

This paper is focused on the spillover effect of the trade war between China and the US. Even if the spillover effect is always invited in negative economic impacts, the trade war between China and US actually brings a positive spillover effect to third-party countries. Vietnam is one of the most representative countries that gain profit from the China and US trade war. When China and US increasing tariffs on each other, it also means that China and US are transferring the amount of trade to a third-party country. Southeast Asia is one of the areas that benefit from the trade war by the

spillover effect. China decreases its import from the US, however, the amount Southeast Asian country shares in the value of US imports raises.

2. The Impact of Trade War Spillover Effect to Southeast Asian Countries:

2.1 General Impact

Ian investigates the impact of the United States increasing the tariff on China on United State imports. According to the report, during 2018 and 2019, U.S. imports from China decreased by around 16.3 percent, reaching their lowest level since 2013, while exports to China decreased by 11.5 percent, returning to their 2011 levels. Trade, particularly US exports, recovered in 2021, but imports only returned to 2017 levels [2].

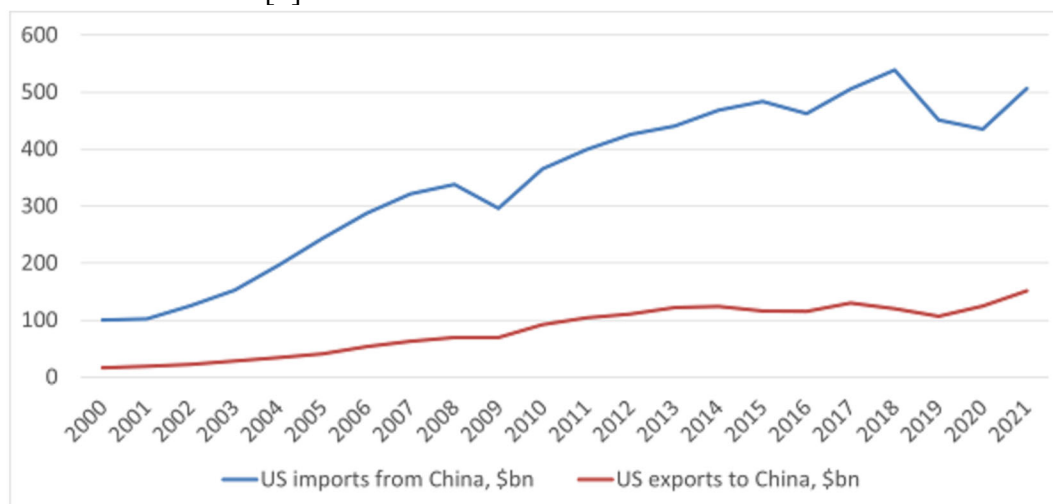


Fig. 1 US-China bilateral trade, 2000-2021.
 Source of data: US Census Bureau

A dramatic decrease appears around the begging of 2018 which matches the date of the trade war about to start. He points out that production and investment have shifted away from China, and only not include the Philippines. From 2018 to 2020, the US's percentage of imports into every major ASEAN economy with a reliance on trade increased.

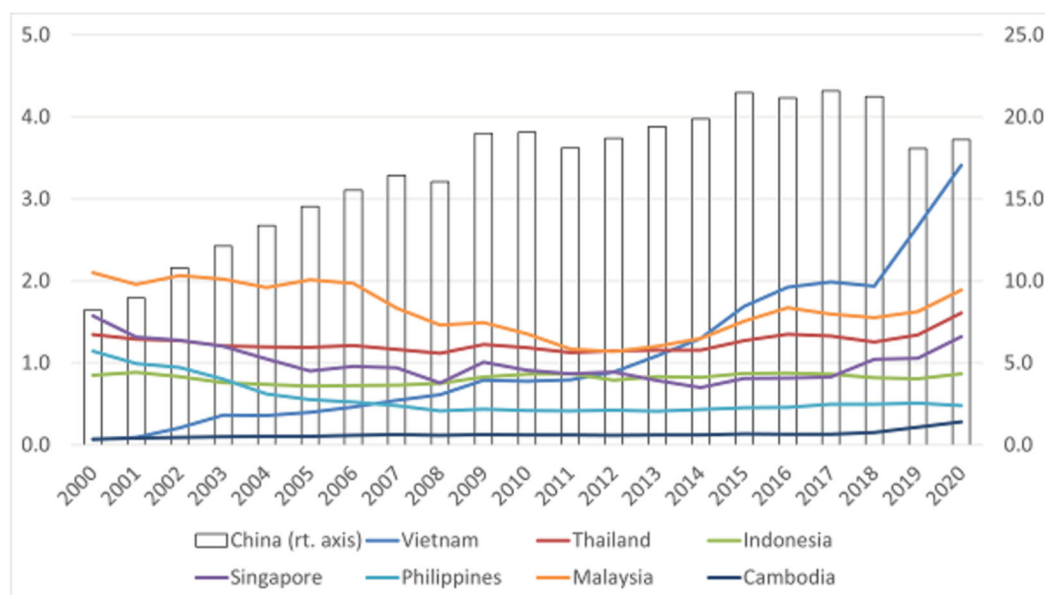


Fig. 2 China and Southeast Asian countries shares in the value of US imports, percent.
 Source of data: US Census Bureau

The study also presents that China United States trade war spillover to Asia-pacific trade. A big gap has founded in 2018 China decrease its import from the US by about 0.5% [2]. All the other country in Southeast Asia expect the Philippines shows a sign of an upward trend. Vietnam is the country that gains the most benefits from investment and trade shifts. Jumped from 1.9% in 2018 to 3.4% in 2020 [2].

2.2 Impact on Vietnam

Vietnam is the biggest winner of the trade war. From Figure 2 we can easily find that between the years 2018 and 2020 Vietnam has a sharp upward trend. The spillover effect of the trade war delayed the process of promoting the construction of a community with a shared future for mankind. However, China and US are transferring each other's imports to other countries so that the other country can get benefit from the increasing number of orders in some industries. Vietnam is one of the biggest country that had the most impact transferred. A large part of Vietnam's revenue comes from the import of additional goods covered by the tariffs imposed by the United States on Chinese electronic products, which may be because multinational companies are more likely to transfer production to facilities outside China. Recent data from the US Census Bureau on import and export show., in the first three months of 2019, there was a year-on-year increase of 40.2% in Vietnam [3]. And it had always been the fastest growing source of American import. In fact, the economy of Vietnam increased by 7.1% under the push of the manufacturing industry last year, which was the second fastest growth rate in Asia, only second to 7.2% in India [3].

The main reason why Vietnam had become a country where foreign enterprise expands their scale or choose a substitute place outside China was that it had successfully established a production base with strong adaptability, which was also aimed at higher value production.

Two major supply chains shift from China to Vietnam dominate the transferring of the manufacturing industries. The textile and clothing sectors are Vietnam's two main export sectors. Following China, Vietnam is South Korea's second-largest source of textiles and clothing and It's divivable to surpass China in the future. Nike and Adidas are two Giant footwear companies in the world, China used to own the most productive line of both companies. However, Vietnamese manufacturing workers currently make an average of US\$216 per month, which is less than Chinese workers who make US\$400 per month [4]. Thus, both shoe manufacturers shifted their product line to Vietnam to reduce wage expenses. However, as the current wage growth rate is 7.9%, in the foreseeable future, manufacturers are likely to have to transfer production again to countries with cheaper labor [4]. The other supply chain that gets shifted from China to Vietnam is electronic equipment. In the last few years, Vietnam's high-tech industry is developing rapidly. It has laid a solid foundation for Vietnam to become a substitution for China's electronics goods factories' production line. A good example of the shift is the titanic smartphone company apple's assembler has confirmed the transfer of AirPods, Apple's wireless headphones product line into Vietnam. The process of the trade war, the trade war has gradually escalated and transformed into a technology war. A high tariff on electronic equipment has turned Vietnam into a leading alternate manufacturing choice for the electronic industry. Vietnam is an ideal location for manufacturing because of its closeness to China, rising skilled worker force, affordable labour prices, and political stability.

2.3 Impact on Singapore

From the previous diagram Figure 2, we barely find an upward or downward trend in Singapore shares in the value of US imports between 2018-19. Singapore is an urban country, a very advanced capitalist nation that is the sole developed nation in Southeast Asia. In 2019, Singapore's per capita GDP reached the US \$65000, ranking among the top ten in the world [5]. Among other developed countries in Asia, the per capita GDP of Japan is US \$40000 and that of South Korea is the US \$31700 [5]. Compared to other Southeast Asian nations, Singapore has a far more developed economy. Even while Singapore's economy as a whole is not very strong, it outperforms Southeast Asian nations in terms of GDP per capita, total international trade, and other economic metrics.

Different from the spillover effect in Vietnam, Singapore has a negative spillover effect from the trade war. Singapore remains neutral in its stance on the conflict between China and the United States. The United States is Singapore's main defense and security partner, as well as missiles and military planes, which Singapore purchases from Singapore. China continues to be Singapore's top export market. Singapore has also participated in considerable economic cooperation with China, which includes significant city projects involving the governments of Suzhou, Tianjin, and Chongqing. This put Singapore in a dilemma situation. The US-China conflict has forced the third-party country to pick a side. It is different that remains neutral, because Singapore may suffer from both sides' economic or policy pressure.

For the negative spillover effect, as an economy heavily dependent on exports, Singapore stands to lose as much as \$2.2 billion in a full-blown trade war, which could disrupt financial markets and hit the country's domestic manufacturing sector [6]. Also, The United States has put the Chinese telecom equipment giant Huawei on an export blacklist, citing concerns that the company's equipment could be used by China to spy on Americans. If the United States does not allow its companies to use Chinese-made components or sell microchips to China, American and Chinese companies will have to develop their components, microchips, smartphones, and telecommunications systems. This means Singaporeans may have to carry more than one phone with them at the same time. The only other sovereign nation in the world with a majority of its population being of Chinese ancestry is Singapore. The US and other nations may believe that Singapore is supporting China since it is a nation with a majority-Chinese population and hence "joins" China if Singapore does so. The US may put Joint combat on Singapore. The decrease in chip industrial, which contributed more than a third of Singapore's industrial production in 2018 has increased worries that the export-reliant economy would experience a downturn soon. Singapore's economic success has long been largely attributed to its chip manufacturing industry, which produces microchips used in everything from mobile phones to vehicles. According to government figures, Singapore's semiconductor industry accounted for 28 percent of total manufacturing production in 2018 and 76 percent of electronics [6]. Because most of Singapore's output is exported, the situation is tougher than in other chipmakers such as Taiwan and South Korea, where demand for local electronics is high. Singapore manufacturers' capacity utilization rates are on average 10-15 percent below year-ago levels. According to data made public in 2019, Singapore's exports hit a six-year low in June, driven by a 31.9 percent loss in electronics exports, the worst drop for the domestic market in ten years [6].

2.4 Impact on Malaysia

Malaysia is not simply a tiny and open economy that is heavily reliant on trade, but much of that trade is also firmly embedded in global supply networks. GVCS is used by more than 82 percent of major organizations and over half of Malaysia's small and medium industries [7]. Furthermore, Malaysia is heavily reliant on the Chinese economy, which is both its greatest trading partner and its primary supplier of visitors. As a result, the interruption in the Chinese supply chain will have a severe impact on Malaysian exports. Malaysia appears to have no beneficial spillover effects from the trade war, and trade diversion does not compensate for the overall negative impact of the trade war on Malaysia.

The level of trade "diversion" may be determined by comparing pre-tariff and post-tariff export performance using US Census Bureau import data from the region's key exporting economies. When the US import data is compared to the 7,339 items named in all three rounds of US tariffs, it is clear that Malaysia has not profited appreciably from any "trade diversion" to yet [7]. In reality, Malaysia's exports to both tariff-affected and non-tariff-affected items fell overall, with total exports to the US falling by around \$90 million each month on average [7].

2.5 Impact on Philippines

The Philippines had always been one of the strongest countries in Asia. A stable policy and a favorable global economic environment had brought about strong economic growth, low hunger and

a continuous debt path, making the Philippines in a favorable position to solve problems of poverty and unfairness. The huge gap between the rich and the poor had always been a major problem in the Philippines. The huge gap between the rich and the poor was a social instability factor, which would affect the social conflicts. If they were not handled in time, it would seriously damage the life and peace of the citizens. The flood of drugs was one of the consequences of the huge gap between the rich and the poor. Despite the years of war against drugs, the high rate of corruption in the government of the Philippines had resulted in the failure to ban all kinds of drugs [8]. The government of the Philippines was now helping to improve overall production, stimulate private investment, and reduce poverty by creating employment opportunities.

From figure 2, we can easily find out that the Philippines is the only country in Southeast Asia that has a declining trend of shares in the value of US imports. However, in terms of trade between ASEAN countries and China, the Philippines has a smaller share. The share of Philippine exports to China accounted for 16.9 percent of total exports, more than countries such as Malaysia (11.4 percent) and Indonesia (10.9 percent) [9]. In 2016, China was the Philippines' largest trading partner with a total trade value of \$21.937 billion, accounting for 15.5 percent of the country's total trade [9]. In the same year, the United States was the Philippines' third largest trading partner, with a total trade value of US \$16.427 billion, accounting for 11.6 percent of the country's total trade [9].

In 2018, the overall economic growth of the Philippines dropped to 6.2%, but not all of it was affected by the trade war [9]. The internal factor in the Philippines impacts a huge part of its economy.

3. Discussion

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All in all, great benefits often come with great risks, when multinationals shift production capacity from China, they often go to Southeast Asian countries with labor cost advantages, such as Vietnam and Malaysia, and from previous analysis, Vietnam has become a major beneficiary of the trade war. If these short-term benefits are rationally viewed and applied, they would play an important role in the future development of the country's economy. Such as the transfer of industrial chains in Vietnam and Malaysia. Vietnam has successfully built adaptable production bases to receive industries and industrial chains from China. It establishes a strong base for the industry transition. However, the trade war will have both benefits and drawbacks for Southeast Asian nations. Trump said to Fox News "Although many businesses are relocating there, Vietnam uses us worse than China does. With Vietnam, we are in negotiations. Vietnam is almost the worst abuser, although being considerably smaller than China." A few days later, the U.S. Commerce Department proposed harsh duties on steel products from Vietnam that may reach 456% [10]. The major cause is that some businesses use Vietnam as a conduit for reexporting to the United States in order to get around tariff restrictions. For example, although the trade war has increased the shares in the value of US imports, As Singapore is an economy heavily dependent on exports, the trade war between China and the United States will lead to Singapore's negative impact on the trade between both sides of China and the United States.

It may take at least a few years for the effects of the trade war to be fully felt. In the next few years, Southeast Asian countries should lay a solid foundation for steady economic development. While absorbing trade diversion, supporting the country's weak industries, Balancing the gap between various industries to achieve balanced development, and striving to enhance international strength and influence.

4. Summary

The trade war between China and US influences the whole world economic market. Nobody can accurately forecast the trend of the global economic market of the sophisticated and complex

economic system. Import and export are two significant parameters that reflect and measure the trade and investment changes before and after the trade war. This paper analysis the spillover effect on southeast Asia caused by the trade war. Using some related literature and graphs to show how can spillover effects dominate the growth of GDP in Southeast Asia. Since there are rarely data directly showing the increase in certain industries. The article shows that tariff wars divert trade and cause permanent losses, mainly benefiting third-party economies such as Vietnam. The rest of the countries are hard to analyze they have a positive or negative spillover effect, or they might have both ways. Specifically, the overall spillover effect in economic growth is difficult to identify.

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