THE US-CHINA TRADE WAR AND THE EFFECTS ON THAILAND: Assessing the Opportunities

February 2021

Introduction

In 2018, following long-festering and unresolved trade disputes, the United States began imposing a series of punitive import tariffs on goods from China. Ultimately, four tranches of punitive tariffs ranging from 7.5% to 25% were imposed on hundreds of billions of dollars' worth of imports between July 2018 and September 2019, with tariff levels on certain products changing during that period and since.

This led to supply chain shifts for many products, and other disruptions to economic activity. The application of import tariffs on such a large scale led many businesses to relocate their operations out of China, or to identify alternative suppliers. This presented an opportunity for some countries to capture a portion of the investment and sourcing activity migrating out of China.

Thailand is no exception. With substantial tariff differentials on a wide range of goods, Thailand in fact gained some important comparative advantages as a result of U.S. tariff action. Taking the entirety of China's US-bound exports subject to tariffs and comparing Thailand's exports to the U.S. of those same products, Thailand gained an average tariff advantage of almost 17% over China. That substantial cost differential means that Thailand is well positioned to gain additional investment and sourcing opportunities.

Tariff lists and average tariff advantages

The four tranches of U.S. tariffs cover different products and thus in the aggregate have different average tariff differentials. "List 1" tariffs of 25% were applied against $34 billion worth of Chinese imports, while "List 2" tariffs, also 25%, were applied to $16 billion worth. Tariffs on "List 3" were initially 10%, applied to $200 billion worth of goods, and tariffs on this list were increased to 25% subsequently. Tariffs on "List 4A," which covered most remaining imports from China, were initially set at 15%, but were reduced to 7.5% when the U.S. and China reached a "Phase 1" Agreement.

THE AVERAGE TARIFF ADVANTAGE

This paper uses an average tariff advantage (ATA) to measure the potential opportunities for Thailand resulting from the U.S. tariffs on Chinese products. If, for example, all US imports from Thailand were included in List 1, Thailand's ATA would be 25%. If no US imports from Thailand were included on list 1, then the ATA would be zero, because Thailand's exports would gain no advantage from China tariffs.

Naturally, the actual situation falls in between those extremes. So by our calculations, the tariffs applied against China, based on lists 1-4 in the aggregate, provide Thailand with an average tariff advantage of 16.9%. In other words, Indonesia has a 16.9% cost advantage over China in those products.

Framework for Analysis

The following sections show the values and shares of U.S. imports from Thailand by China Section 301 list grouping, and how this compares to other countries.

- First, using an "average tariff advantage," (ATA), the paper compares country-specific opportunities created by the China tariffs.

- Second, the paper uses trailing 12-month import data to eliminate issues associated with tariff implementation dates throughout the calendar year. For example, List 1 tariffs took effect in July 2018, so "pre-List 1" trade data represent imports for July 2017 to June 2018 (i.e., the last full year before the tariffs). Similarly, all "2020" data represent imports in the 12 months through August 2020, the most recent monthly data available when this report was produced.

- Third, it compares Thailand to four ASEAN neighbors to analyze performance against similarly situated countries. The four countries are Indonesia Malaysia, Philippines, and Vietnam.

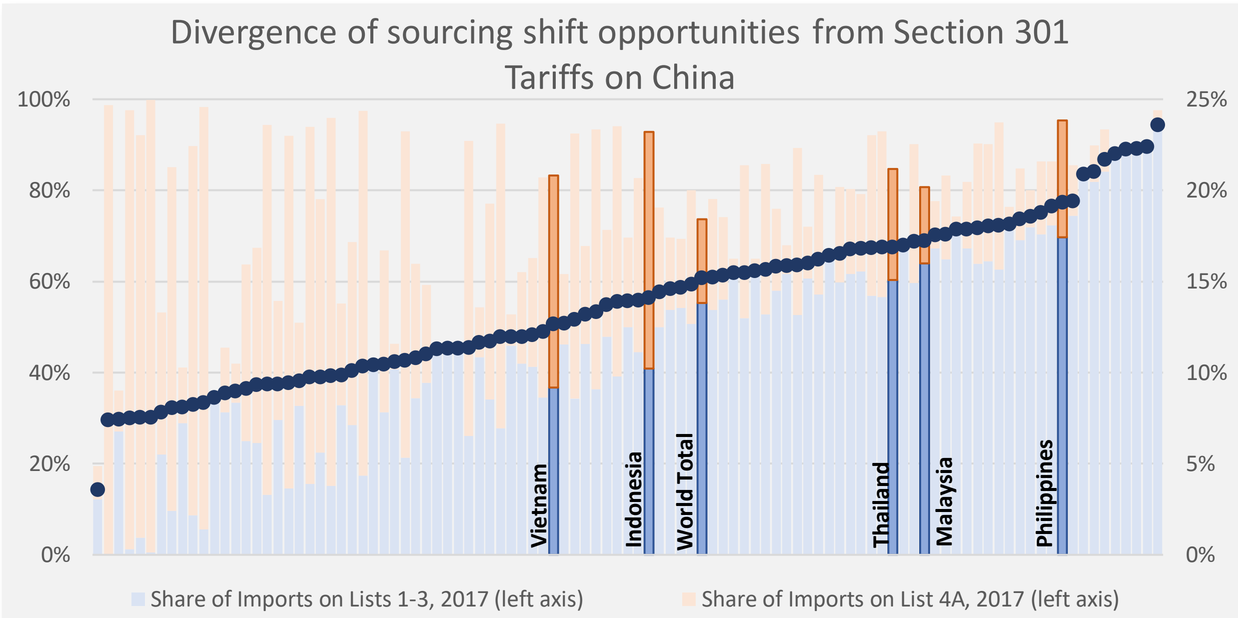
- Finally, it uses indexed import levels when comparing trends for Thailand and its ASEAN neighbors. Often, the value of imports differs greatly between the countries, so it is difficult to see trend movements in graphs using raw import data. Therefore, for each list of tariffs, countries import levels are set to 100 based on the import value for the 12 months before the tariffs too effect. Graphs then show how much each country's imports have increased or decreased since tariffs took effect. Note that the reference period changes for each set of tariffs, as noted in the graph titles.[i]

Findings for Thailand: analysis of U.S. import trends

The data show that U.S. imports from Thailand continued to grow after the imposition of successive waves of tariffs against China. However, the rate of growth was little changed from that over the previous several years, as the graph indicates. The impact of COVID-19 on trade flows and U.S. demand likely obscure or distort the underlying trends; whether Thai exports to the U.S. would have grown even more in the absence of the pandemic is unknowable.

Among the countries analyzed, Thailand had the 2nd highest share of exports on list 1, and the 4th largest on List 2 (i.e., those facing 25% tariffs since summer 2018) and the only the 4th highest share on List 4A (i.e., those facing no tariffs until late 2019 and whose tariffs were quickly lowered). Thailand had the largest share of products on List 3. 15.3% of Thailand exports were not on any list, a figure which is higher than the Philippines and Indonesia, but lower than that of Malaysia and Vietnam.

While U.S. imports from Thailand on Lists 1-3 have increased, Thailand has underperformed relative to its neighbors; Vietnam was more successful in expanding its exports of List 1 and 2 products, while both Vietnam and Malaysia saw relatively higher exports of List 3 and List 4 products.



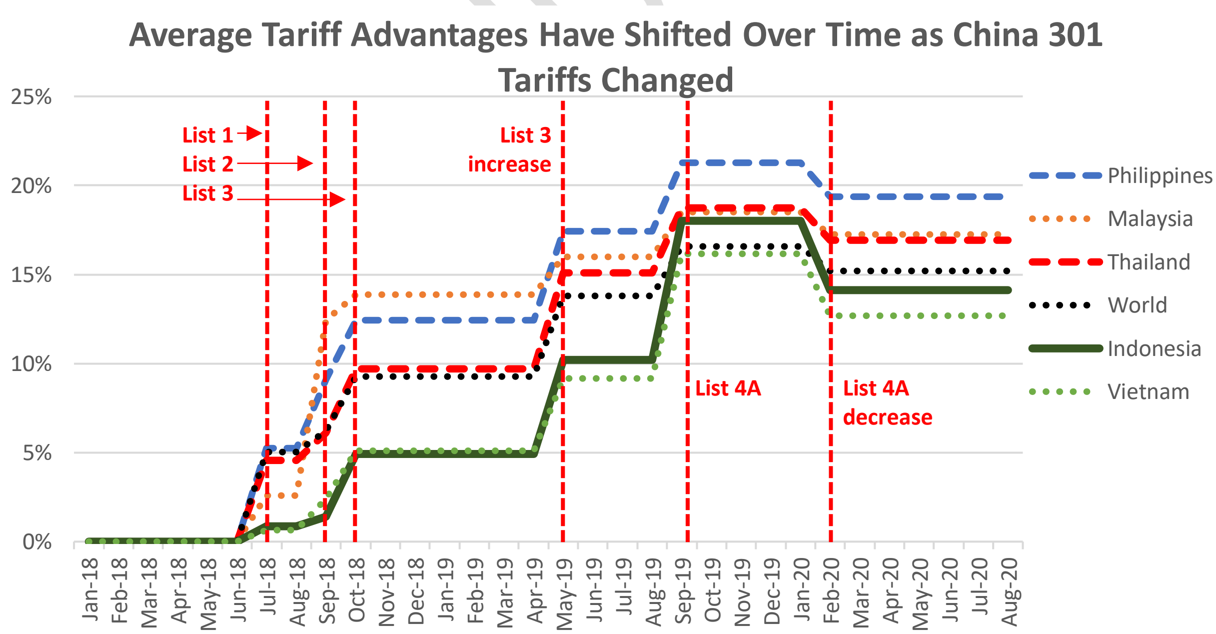
It is important to look at the extent to which the Section 301 tariffs cover like products from other countries, and how that product coverage differs *between* countries. Due to different tariff rates for different Section 301 lists, it is helpful to distinguish between products on Lists 1-3 (i.e., currently subject to 25% tariffs) and those on List 4A (i.e., currently subject to 7.5% tariffs).

The graph above shows the range of impacts of the China Section 301 tariffs for the top 100 imports sources (only select countries are labeled for clarity). The blue bars show the share of U.S. imports from a country on Lists 1-3, the orange bars show the share of imports on List 4A, and the blue dots show the **"average tariff advantage" (ATA)** over China. The higher a country's ATA – or further right on the graph – the better positioned it was to gain from tariffs on China.

Clearly, there are large differences. Lists 1-3 tariffs would cover 55% of world imports, and List 4A another 18%, for an ATA of 15.2%. Though unlabeled, Ireland is the far-left country and Slovakia is the far-right country. Section 301 tariffs would cover under 20% of imports from Ireland versus 98% from Slovakia. Their ATAs – 3.6% for Ireland versus 23.6% for Slovakia – shows Ireland had far fewer chances to take advantage of new China tariffs than Slovakia (or anyone else).

Thailand was well positioned; 60% of its exports were on lists 1-3, below Malaysia and the Philippines, but ahead of Indonesia and Vietnam. As shown in the table below, 18.3% of Thailand's exports were on List 1, but only 6.2% on List 2, ahead of only Indonesia. Indonesia had the lowest share (6%) of imports on Lists 1-2, which have faced 25% tariffs since summer 2018 and the highest share (52%) of imports on List 4A, which faced no tariffs until September 2019 and then were quickly lowered from 15% to 7.5% in February 2020.

Share of Imports by China Section 301 List, 2017, Select Countries						
Country	**List 1**	**List 2**	**List 3**	**List 4A**	**No List**	**Average Tariff Advantage (ATA)**
Indonesia	3.4%	2.2%	35.3%	51.9%	7.2%	14.1%
Vietnam	2.6%	7.0%	27.1%	46.5%	16.7%	12.7%
Thailand	**18.3%**	**6.2%**	**35.9%**	**24.4%**	**15.3%**	**16.9%**
Malaysia	10.4%	39.4%	14.2%	16.7%	19.3%	17.2%
Philippines	20.9%	15.4%	33.4%	25.6%	4.7%	19.3%
World	20.2%	4.7%	30.4%	18.4%	26.4%	15.2%

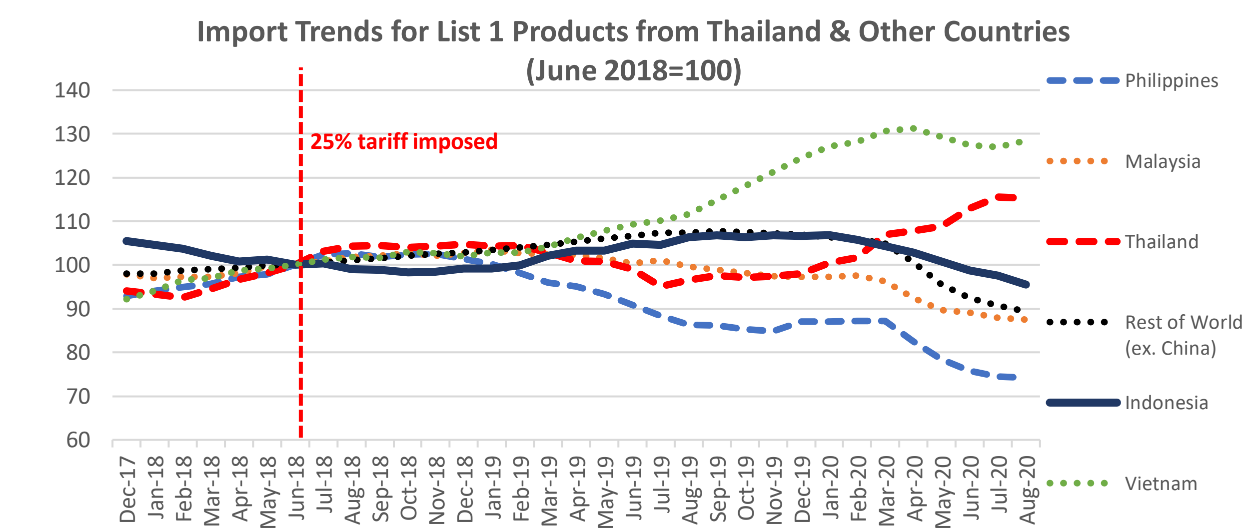


The graph above shows how each country's ATA has changed over time with new tariff or changed tariffs. The August 2020 levels are identical to those in the table above. Thailand's ATA is nearly identical to that of Malaysia and is below that of the Philippines. By October 2018, the difference in potential opportunities for ASEAN countries created by China tariffs was very clear. Indonesia's ATA (4.9%) was just below Vietnam (5.1%) and both were far below the world average (9.3%), Thailand (9.7%), and the Philippines (12.4%).

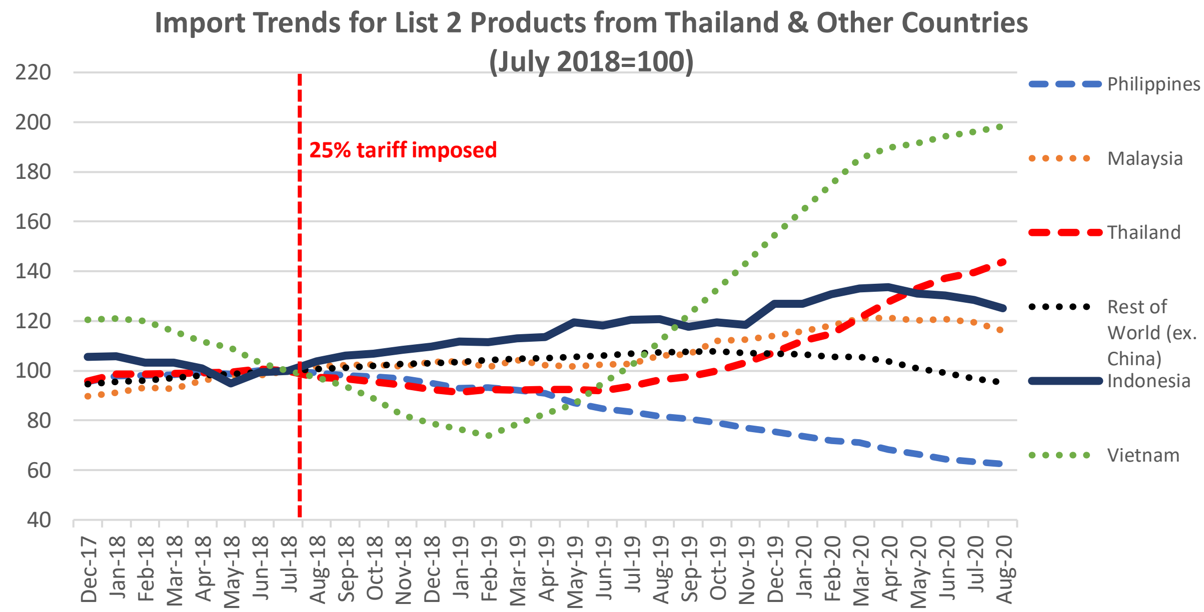
While the product coverage and timing of China Section 301 tariffs are important, they are not destiny. The Philippines might be expected to benefit most based what products from China faced new tariffs, and when. Yet as shown in below, imports from the Philippines often performed the worst among ASEAN countries. Conversely, Vietnam is the country whose "opportunities" from China tariffs were below those of most other ASEAN members, but import growth from Vietnam has generally outperformed all the other countries.

Vietnam may be a special case due to certain advantages before the Section 301 tariffs on China took effect. Imports from Vietnam already were rising rapidly, tripling from $15 billion in 2010 to $46 billion in 2017. Potential duty-free treatment under the Trans-Pacific Partnership (TPP), though never realized, likely contributed. It is plausible that significant investments made in Vietnam to take advantage of TPP far outweighed any extra benefits other countries like Philippines and Malaysia gained from the luck of the China tariff coverage.

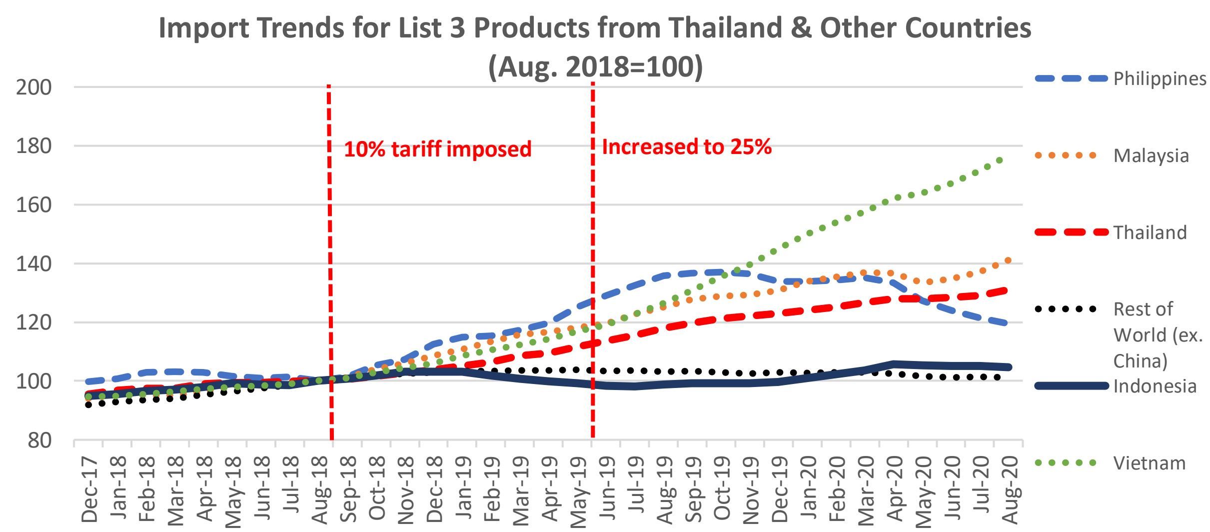
The charts below illustrate the performance of Thailand's exports to the U.S., and those of its neighbors, of the products covered in the individual Lists.



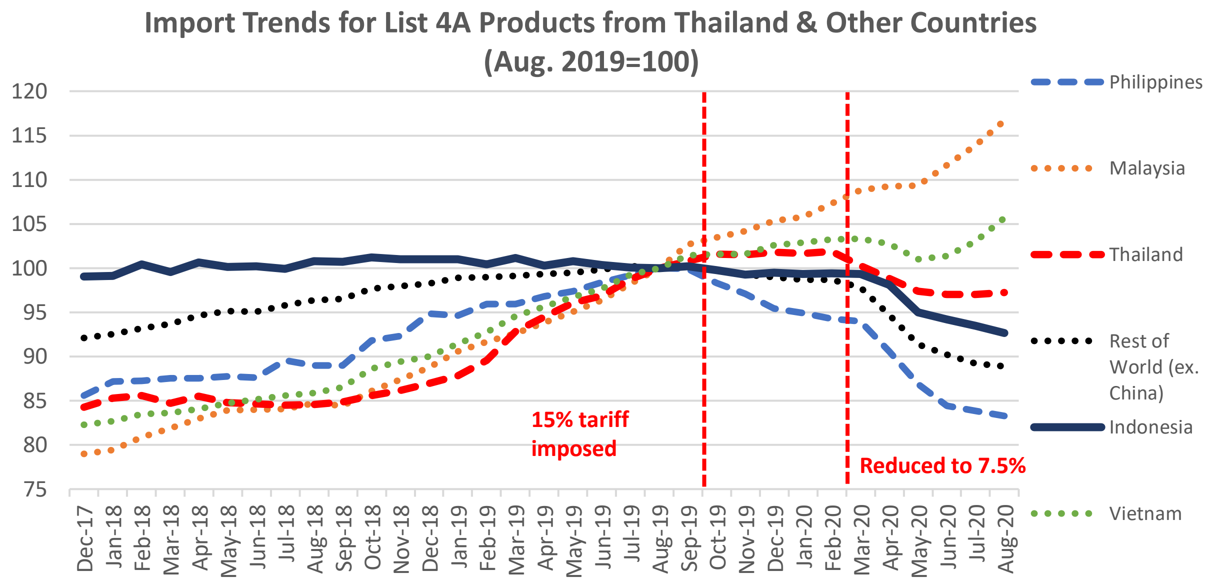
List 1 Import Trend Summary: Imports from Vietnam (+28%) and Thailand (+15%) have increased the most since List 1 tariffs were imposed on China. Indonesia's import decline (-4%) compares favorably to much larger import declines from the Philippines (-26%), Malaysia (-12%), and rest of world (-11%) compared to June 2018.



List 2 Import Trend Summary: Imports from Vietnam (+98%) and Thailand (+44%) have increased most since List 2 tariffs were imposed on China. Import growth for products on this list from Indonesia (+18%) outperformed Malaysia (+16%), Philippines (-38%), and rest of world (-5%).



List 3 Import Trend Summary: Again, Vietnam enjoyed the largest growth in U.S. imports since 25% tariffs were imposed on China in September 2018. Thailand saw a 31% jump, behind Malaysia at 41%, but ahead of the Philippines (+19%), Indonesia (+5%), and the rest of world (+1%).



List 4A Import Trend Summary: Imports from Thailand on List 4A fell slightly, by -3%. Malaysia (+17%) and Vietnam (+6%), have seen the most growth in this list, while Indonesia saw a decline of -7%, the Philippines declined by -17%, and the rest of the world by -11%.

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[i] All data are estimated by The Trade Partnership from an analysis of U.S. Census Bureau data and detailed China Section 301 tariff lists published by the Office of the U.S. Trade Representative. Import data are goods only and reflect "Imports for Consumption."