Opportunities and threats for EU firms in the US-China trade war

The hot topic at Thursday's Asia Europe (ASEM) meeting will no doubt be the China-America trade conflict. There are opportunities here for European firms, but potential harm too

Why we are where we are

In the first week of September, the US announced another round of increased tariffs targeting a group of import products from China worth some $200bn. Shortly after, China announced its retaliation, raising tariffs on 60 billion dollars-worth of US products. Currently, the trade flows covered by both countries' tariffs add up to approximately 2% of world trade. An escalation of trade tensions between the EU and the US is on hold after President Trump and the EU's Jean Claude Juncker started trade negotiations in July, but this does not mean the EU remains unaffected by the conflict between the US and China.

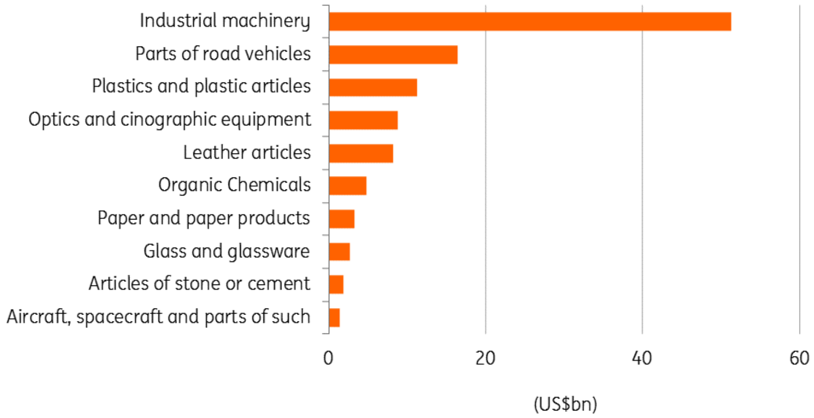
Gaps in American markets

So what about the opportunities here for European firms active on the American and Chinese markets that are affected by the trade war? Obviously, the raising of import tariffs by the US makes Chinese products more expensive for US importers. Where substitution is possible, US importers may switch to European products. European companies that already export to the US seem best suited to benefit quickly from this improvement in their competitiveness, and the products that European exporters specialise in are prime candidates to fill the gap in American markets.

We found the EU has a relative specialisation in more than half of the product categories currently taxed in the trade dispute between China and the US. Of course, the degree to which these European industries will gain from the tariffs depends on the substitutability of these products and how they can compete with domestic American producers and Chinese suppliers, which are more expensive.

Most promising American markets for the EU

Good performing EU-product groups on US markets for which the US has raised import tariffs from China. The figure shows the value of US imports from China for these markets.*



Who can gain the most?

As we see above, mostly European machine makers could gain from the US tariffs on China. This is the largest category of exports by China to the US in which Europe is also relatively specialised. The EU is also relatively specialised in the export of beverages and tobacco to the US, which are both included in the US tariff measures. However, because China doesn't export too much of those to the US, the tariffs do not offer that much of an advantage for those European drink and tobacco firms.

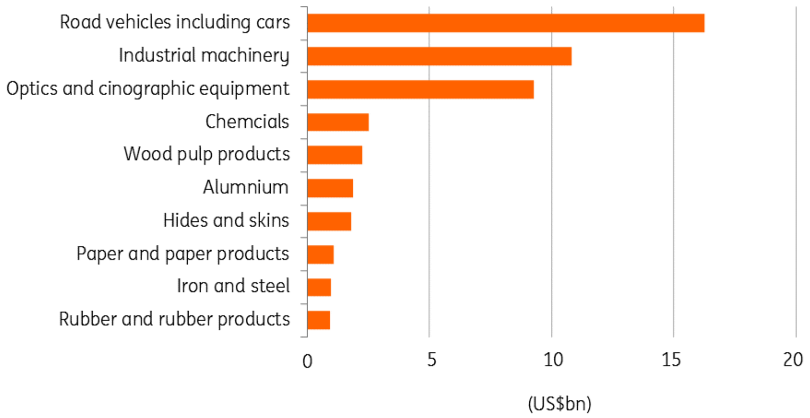
If the tariffs cause the US to substitute 10% of the industrial machinery that it imports from China with imports from the EU, European machine makers would gain US$5 bn in extra orders from the US. However, the recent 7.5% depreciation of the Chinese currency RMB since May (according to the average USD/RMB exchange rate for September relative to the average rate for May) could compensate for the US tariff increases and thereby diminish the gains in competitiveness for European firms.

Similarly, the elevated Chinese import tariffs on US products offer chances for EU companies. In particular, the automobile industry (including car parts), machine makers and manufactures of optics are well suited to gain from the improvement in competitiveness due to the Chinese retaliatory tariffs, as we can see below. They are already relatively specialised in these product groups as far as exports to China are concerned.

*Balassa indices (ING calculations) show specialisation of European firms relative to the rest of the world. Products groups selected in the chart all have a Balassa index larger than one meaning that for those product groups European firms are on average more specialised in exporting to China than firms in the rest of the World.

Most promising Chinese markets for the EU

Good performing EU-product groups on Chinese markets for which China has raised import tariffs from the US. The figure shows the value of Chinese imports from the US for these markets.*



Not all good

Although it may seem promising that European firms potentially benefit from additional export orders as the China-American trade dispute escalates, it is not all good. The bilateral trade dispute potentially also harms European firms. A lot of products shipped between the US and China contain foreign parts. If the US demands fewer Chinese goods as a result from the tariffs, it indirectly demands fewer European intermediate goods which are processed in these Chinese products.

Using the world input-output database (WIOD), we calculated that the size of European inputs in bilateral China-American trade equals US$10bn. Although this amount is relatively small, the exposure can inflict pain on individual businesses.

Downward price pressure is another European pain point

Another potential source of harm for European businesses is downward price pressure due to oversupply from China and the US. When the US imports fewer products from China, these products will be shipped to other markets instead. The European Union is an important market for the Chinese. Increased supply will lead to lower prices and therefore lower profit margins for European firms. However, these effects would be temporary as the additional supply by China may (partly) be compensated for by extra demand for EU products from the US (and the other way around). Temporary lower profits may cause firms to postpone investments and forgo employing new workers.

A still unknown balancing act

A tit for tat tariff war creates some opportunities for European firms, but this isn't something to shout about. The bilateral trade flows between the US and China contain EU intermediate products and dumping of Chinese and American goods on the European markets hurts profit margins of those firms which produce primarily for European markets.

On top of that, lower US and Chinese investments, due to lower profit margins and rising uncertainty, potentially affect the demand for European capital goods in the US and China. The net effect of the bilateral trade conflict between China and the US is uncertain. Moreover, it is important to realise that the net effect will differ per industry and per EU- country. Countries whose exports to the US are dominated by capital goods such as Germany and the Netherlands will be hurt relatively more if American investment declines due to the trade war. Countries that are more specialised in goods that are dominant in the Chinese US bilateral trade flows may gain some extra orders from China and the US. However, those countries are potentially also hit most by negative price pressure from excess supply by China and the US. Overall, the net macro effect could just as well be negative as positive.

Author

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@asia.ing.com

Michiel Tukker
Senior European Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@asia.ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com