From Trade War to Cold War?

While the US-China trade war truce is good news for exporters, companies must act now to implement contingency plans should relations sour once again.

– By Kit Dawnay, Country Head, Singapore Director of Research, SVA Group

Markets welcomed a truce in the trade war, brokered in December 2018 in Buenos Aires by Chinese Communist Party (CCP) General Secretary Xi Jinping and US President Donald Trump.

Yet, the reality is that this trade war is only a symptom of a parting of the ways between the US and China, a trend that diplomatic bonhomie may slow, but not alter.

Businesses must understand that this systemic divergence will reshape the commercial landscape of recent decades, meaning companies must adapt if they are to prosper.

Will the Trade War turn into a Cold War?

Sino-US tensions had intensified ahead of this truce, owing to the US government's imposition of tariffs on imports from China worth about US$250 billion. These tariffs affected trade flows; Chinese purchases of US soybeans plummeted, for instance, replaced by Brazilian cargos, to the chagrin of Midwestern farmers.

A range of other measures have followed. The US in August 2018 tightened rules on oversight of foreign investment, sanctioned Chinese entities for buying Russian weapons, and decided to withdraw from the Universal Postal Union, as China's cheaper postage rates had enabled companies' sales.

These actions may be merited. After all, China has been accused of plundering intellectual property, keeping swathes of its economy closed to foreigners, and demanding party cells hold sway over private companies' decisions. The Made in China 2025 plan, championing industrial development, seemingly proved the final straw for Washington. For now, though, the two sides have agreed to stave off further action for 90 days.

Even so, this dispute is about much more than trade. A consensus has emerged in Washington branding China as a geopolitical adversary; and in Beijing, the belief that the US wishes to stunt China's much vaunted "national rejuvenation" is strong. The trade conflict is thus symptomatic of a major loss of trust between these very different states, and an intensifying geopolitical contest – not just to commercial jostling.

The New Order?

Geopolitical tensions thus seem liable to reshape the business landscape, posing threats to those businesses that had thrived thanks to globalism, even if both sides succeed in easing trade frictions for now.

Take the US casino companies operating in Macau. These gaming businesses have profited mightily since 2001, but Beijing may question whether still to grant American companies such a boon – particularly given that some have overt links to President Trump.

Companies reliant on technology may also suffer. The US appears intent on choking off Chinese access to technology, harming sectors such as manufacturing, biochemistry, and cloud computing. Of course, China will improve its technology with time and effort, but doing so will take longer, and will come at the cost of divergent standards.

Those hoping for economic liberalisation may also prove disappointed. Rather, the CCP will still strategically channel bank lending, maintain capital controls, and empower state owned enterprises at the expense of the private sector – notwithstanding claims to the contrary. Doing so would mean ceding CCP control of the economy.

Transnational supply chains will also continue to shift. Western and Chinese businesses are already investing in Vietnam, so as to evade restrictions, and other Southeast Asian states may also benefit. Some production could "repatriate" to North America. In turn, China may use its Belt and Road Initiative to secure market access.

How to respond?

This changing environment presents risks, such as:

- Rising costs, thanks to tighter finance and supply chain constraints.
- Growing risk of non-payment, as strains on counterparties worsen.
- Risk of supply chain interruption, as suppliers teeter.
- Discriminatory regulatory action, with executives perhaps facing arrest in China.
- Intensifying political risks, particularly if the big powers encourage boycotts, interfere in commercial decisions, or force companies to "choose sides".

Businesses must respond, initially by:

- preparing plans to tackle contingencies;
- briefing staff on risks, and training them to respond;
- ensuring sound controls over local offices;
- managing executive travel, so as to limit regulatory exposure;
- developing internal flexibility, to improve crisis management; and
- closely monitoring key developments, reporting directly to the "C suite".

Conclusion

Systemic shifts are under way in the Asia-Pacific region. These changes will take time to alter the business environment, but will nonetheless do so profoundly, throwing up winners and losers. Companies must react now, if they are to prosper.

SVA is a specialist risk mitigation, corporate intelligence, and security consulting company. The company serves financial institutions, private equity funds, corporations, high net-worth individuals, and insurance companies and underwriters around the world. For more information, or if you need assistance, please visit www.stevevickersassociates.com or email mail@stevevickersassociates.com. 24-hour crisis response hotline +852 9196 2350