

US-CN TRADE WAR, A DISTURBANCE IN MICE INDUSTRY



MARKET TREND

A TRADE WAR
DISPUTE BETWEEN
THE UNITED STATES
AND CHINA
CAUSES INEVITABLE
IMPACTS ON EVERY
INDUSTRY.

**A RISING CONCERN
IN AN ECONOMIC
SITUATION LEADS
TO AN INTERRUPTION
IN MICE BUSINESS.**

EXECUTIVE SUMMARY

The atmosphere of trade is looking gloom since the United States started an investigation on their trade policy in 2017. The U.S. attempted to raise a tariff in order to reduce their trade deficit which cause an unsatisfaction to many countries and accused China of unfair trading practices. Also, China reacted by imposing a tariff on American products. However, both U.S. and China held several meetings in order to end the conflicts but fail to achieve any mutual agreements, so the trade war continues. As a result, there are wide range impacts on every industry including MICE. Because of a concern in the economic situation, MICE travelers could be unwilling to spend more money on their trips.

KEY FACT AND FIGURES:

- Currently, The U.S. has already imposed tariffs on \$250 billion worth of Chinese products and expect to impose \$350 billion more.
- China, the world's largest business travel consumption market, had business travel expenditures of \$344.6 billion in 2017 and expected to growth in 2018.
- The tension over US-CN trade war pushed down the number of Chinese tourists by 1.72% in the first quarter of 2019 compared to the same period last year, according to Association of Thai Travel Agents.
- Thailand had a 95.57% growth in Chinese MICE visitors from 2015 to 2018, according to TCEB.

US-CN TRADE WAR SUMMARY

THE BEGINNING OF TRADE WAR

The United States started the investigation of their unfair trade practices such as currency manipulation, wage suppression and government subsidies with other countries which China had the largest U.S. trade deficit of \$419 billion in 2018. In order to reduce the trade deficit, The U.S. started to impose multiple tariffs on their imports. The first round of tariffs was set on all import of steel and aluminum which worth around \$9 billion. And followed by specific tariff of 25% on Chinese products that worth around \$50 billion. In return, China proposed 25% tariffs on U.S. products which worth roughly the same amount. The third round of tariff also target on Chinese goods. Over a thousand of Chinese products would be affected by 10% of tariff which worth \$200 billion and the rate would change to 25% at the beginning of 2019 but was halted during the trade talk at the end of the year. The conflict seems to be more than a trade issue since the U.S. brought up the accusation over Huawei, Chinese giant telecommunication company, that its equipment could be used to spy on the U.S. government and companies.

FROM TRADE WAR TO TECH WAR

During the first half of 2019, there were a series of negotiations. The discussions were separated into two areas which are trade issues (such as trade imbalances) and structural issues (such as forced technology transfers and intellectual property protection). First, the trade issues, China was accused by the U.S. on the withdrawal of past trade commitments. As a result, the U.S. increased the third round of tariffs on \$200 billion of Chinese products from 10% to 25% and threatened with additional \$325 billion tariff. In retaliation, China raised the tariffs on \$60 billion worth of the U.S. products. Second, the structural issues, the trade conflict get more complicated since the transfer of technology issue became a key for trade talks. The U.S took the actions by formally charging Huawei with 13 crimes such as intellectual property theft and then restricted the federal agencies from using its products. Moreover, the U.S. added Huawei's products into the Entity List which forced many giant technology companies including Google, Intel and Qualcomm to comply and withdraw the partnership with Huawei. One of the reasons behind the aggressive act of the U.S. is the technology advancement of Huawei's 5G. The ban on Huawei's products affected its revenue which caused the interruption of technology development. However, this causes a delay on the implementation of 5G technology around the world.

G20, A SIGN OF TRUCE

At the end of June 2019, there was the G20 summit in Japan where both the U.S. and China had the meeting. The trade tension seemed to be relieved as the U.S. restarted the trade talk with China and decided not to impose new tariff on Chinese products, but the existing tariffs will not be lifted. Also, it allowed the U.S. technology companies to resume their business activities with Huawei. However, the detail of trade deal is not yet to be revealed and we should observe the event closely whether China can maintain their commitments with the U.S., or the situation could change into the other direction because the impact is on the global scale.

THE OVERALL IMPACTS OF TRADE WAR

GLOBAL GROWTH REMAINS WEAK

The unpredictable outcome of trade war is one of the factors that obstructs the global growth in 2019. Global trade and investment remain under threat from the uncertainty which could result in a lower business investment, a disruption in supply chains and a slower productivity growth. The International Monetary Fund (IMF) forecasts the projected global GDP of 3.3% in 2019 which slow down from 3.6% in 2018. The U.S. and China have a GDP projection of 2.3% and 6.3% in 2019 which decline from 2.9% and 6.6% in 2018 respectively. Thailand also has a GDP projection of 3.5% in 2019 which slightly decrease from 3.6% in 2018. The growth momentum of Thailand is slowdown because of weak exports from a sluggish of global market and a slow recovery of Chinese visitors resulting from economic concerns. These numbers reflect the negative sentiment on overall business activities.

A HIT ON THAILAND'S INDUSTRY

The first two rounds of global tariffs imposed by the U.S. took a direct hit to Thailand exporters on solar panels and washing machines and on steel and aluminum resulting in the net exports to the U.S. fell by 27.4% or a value loss of \$316.5 million. Although the series of the U.S. tariffs imposed specifically for Chinese products, Thai industries are still affected from the intermediate goods that link to China's supply chain. However, the impacts vary on the industries.

- **Automotive** - The pressures in this industry have both directly and indirectly effects. Even though the exports of automobiles & auto parts to the U.S. and China increased by 15.7% and 17.2% respectively in 2018, the concern falls into the auto parts which belong to the China's supply chain because the new auto parts orders will drop if the U.S. imposes higher tariff on automotive or on steel and aluminum which are the raw materials.
- **Computer part and electric circuits** - Many electronic devices need to be assembled in China before exporting to the U.S. and the tariff also hurt the demand of electronic part from Thailand. As a result, the export value to China of this industry dropped by 9.8% in 2018.
- **Machinery** - The U.S. and China manufacturers considered finding new sources of raw material in order to avoid the tariffs. Consequently, Thai machinery industry get benefit which export value to the U.S. and China increased by 19.16% and 9.44% in 2018 respectively.
- **Steel and products from steel** - Although the U.S. imposed the global tariff on steel, this industry still has a growth on the export value by 6.55% in 2018 because the global price of steel is consistently high which able exporters to stay in competition.
- **Agriculture** - In 2018, over all Thai's export values in this industry reduce by 1.53% mainly because of the direct impact on rubber tariff. If exclude the rubber, the export value in this industry will increase by 9.81% because of the substitution on Chinese goods in the U.S.

EXCHANGE RATE WORSEN THE IMPACTS

Amid the tension of trade dispute, all Asian currencies depreciated but Thai baht remained strongest due to the high current account surplus and foreign exchange reserves. In consequence, the exports from Thailand will less likely to be competitive compare to regional country. Furthermore, the devaluation in Yuan that absorb the negative impact of the U.S. tariff will flood the Chinese goods to the global market especially the ASEAN market which lead to higher competition for local producers.

EFFECTS OF TRADE WAR ON MICE INDUSTRY

LESS SPENDING IN BUSINESS TRAVEL

Even though in 2017, China was the world's largest business travel consumption market with the expenditure of \$344.6 and expected to growth in 2018, it will be a challenge for 2019. Trade war has no direct impact on MICE industry, but the indirect impact is unavoidable. The concern over the economic situation has led to a negative sentiment and the devaluation in Yuan causes a higher cost for traveling abroad. Therefore, Chinese companies start to reduce their business travel expenditures. Alibaba Group holding Ltd. cut its spending on business travel including restricting business class ticket, no longer booking extra-legroom seats and not riding solo in taxis, reported by Bloomberg. In Thailand, there is an upward trend on number of MICE visitors since 2015 especially Chinese MICE visitor which increased by 95.57% from 2015 to 2018 and contributed about 10% of total MICE visitors. However, the number of spending per head per trip of MICE visitors decreased by 9.81% in 2018, according to Thailand Convention & Exhibition Bureau. In the first quarter of 2019, the Association of Thai travel Agents reported the number of Chinese tourists drop by 1.72% compared to the same period last year due to the trade tension. This slightly deceased in number reflect the pessimistic sentiment on the growth of overall tourism industry, but it was expected to be recovered in the second half of 2019.

During the dispute between US-CN trade war, the flow of Chinese tourists changed from the U.S. to Asia. The depreciation in Yuan and the concern in the economic situation made Chinese traveler plan trips inside Asia due to the proximity, mentioned by The Tourism Authority of Thailand (TAT). Also, Thailand, one of the top destinations for Chinese travelers, would benefit from the conflict since there will be a potential ban on Chinese tourists from making trips to the U.S. This might be an opportunity to attract more tourist to Thailand and able to increase MICE activities. Moreover, according to US-CN: Trade war to tech war seminar by Kasikorn Bank World Business Advisory, the trade war will be the long drag event resulting in the relocation of business. More manufacturing will flood into South East Asia region including Thailand which local manufacturing companies might not able to compete. However, Thailand has an advantage in the service industry including service mind in human capital, extensive logistics for supply chain and attractiveness of geolocation. The MICE's stakeholder should strive to improve the quality of service in order to maintain the advantage for future competition.

CHAIN IMPACTS TO EXHIBITION INDUSTRY

In consequence of trade war, many companies want to find new market to substitute the loss of revenue in Chinese and U.S. market. This might be an opportunity for the Exhibitor planner especially in South East Asia because the exhibition acts as a platform for promoting many industries. For instance, in Thai automotive, the exhibition can promote the sales of the products and create new opportunity to penetrate the new market. However, if the trade war continues for too long, there will be the decreasing in demand of the auto parts which will reduce overall activities in the industry and prevent further investment. As a result, the demand for the exhibition will also decrease as well. On the other hand, the exhibition in Thai agriculture will get benefits as the trade war continues. Most of the products in this industry able to substitute in both the U.S. and Chinese market. The growth in the industry will create the need to find a bigger market which create more opportunities for the exhibition planner.