UNITED STATES-CHINA ROW

IMPACT OF TRADE WAR ON MALAYSIA

In the short term it will be a boon, but if it persists, world economies will be hard hit, writes **DATUK DR MAD NASIR SHAMSUDIN**

LITERATURE has shown that trade liberalisation in general enhanced total economic welfare and made societies better off.

From the Ricardo days of the 19th century, when the theory and concept of comparative advantage was introduced by British economist David Ricardo, there was evidence that there were gains to be made from free trade. It was argued that trade liberalisation opened up markets and promoted export through the "natural" workings of comparative advantage.

China has one-fifth of the world's population, four times that of the United States, but only has one-tenth of the world's arable land. Accordingly, China primarily exports labour-intensive manufactured products to the US (for example, electronics), and the US exports land-intensive agricultural commodities to China (for example, soybean). While the US has a large trade deficit with China, it has a trade surplus in agricultural products.

However, since January, there has been a trade war between the US and China — each had increased the tariffs on the traded products. This trade war started when the US filed a request for consultation to the World Trade Organisation (WTO) on concerns of China violating intellectual property rights.

The US is relying partly on Section 301 of the Trade Act of 1974 to prevent what it claims are unfair trade practices and theft of intellectual property. In response, the US said tariffs were necessary to protect the intellectual property of US businesses, and to reduce US' trade deficit with China.

China filed counter requests for consultation against the US, arguing that the claims lack evidence, and therefore did not have the legal authority to respond based on WTO rules. Ever since then, neither parties have been able to agree on a solution. In the meantime, the US and China have responded by continuing to engage in trade war activities.

Since the US and China are large economies, their trade disputes not only affect each other, but also the global economy. In general, countries which engage in intermediary trading between US and China would face the negative impact of the dispute.

South Korea, Taiwan, Vietnam and Malaysia, all of which export goods, such as machine parts and components for communications equipment, used in the production of items that China then sells to the US, are certainly vulnerable.

The trade war is important to agriculture, because China has been US's top agricultural export market with an annual sale of nearly US$20 billion (RM83.35 billion) last year. Top US agricultural exports to China include soybean, cotton, fish, dairy, sorghum, wheat and pork.

China imposed tariffs on soybean, corn, wheat, sorghum and fresh fruit, as well as nuts and certain dairy products. China has also placed hefty import taxes on US's pork products which exceed 70 per cent. In the new round of trade tariffs, China imposed duties on US$60 billion of US's products, including cocoa powder and frozen vegetables.

What does this mean to Malaysia's agriculture industry? China is the world's largest buyer of soybean, importing 60 per cent of the traded crop, which it uses primarily for animal feed and vegetable oil. With China's new 25 per cent tariffs on American soybean, a substitute for palm oil, this will be a boon for Malaysia to expand her palm oil exports to China. Further, China's higher tariffs on the US's pork products, with the US$3 billion worth of tariffs, would also be a good opportunity for alternative suppliers, like Malaysia.

As palm oil exports are facing challenging market conditions, Malaysia has to improve its competitive advantage in the global markets. Other than strategising in market penetration such as through collaboration memorandum and market promotion in China, the industry should also improve its production efficiency through labour-saving and land-augmenting technology.

The progress in tree mechanisation has hitherto been relatively slow. With increasing shortage and rising cost of labour, there is a need to intensify research in this area.

To date, there is a wide disparity between estates and smallholders' yield. The poor performance of the smallholder sector is attributed to non-optimum production and financial constraints. Farm management practices are below the recommended ones. Thus, agronomic management to improve the smallholder farming system must be emphasised to improve yield.

An inventory to determine technology transfer and adoption among smallholders and factors that influence technology adoption should also be undertaken.

In the long run, however, the impact of the trade war would have a negative effect on gross domestic product, manufacturing, employment and trade in both the US and China. Smaller nations within Asean would also see significant negative impact in terms of GDP, manufacturing, production and employment, export, import, and total trade since these nations are highly trade dependent.

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