

## ECONOMIC REVIEW | January 2018 US Economy

### Protectionism Threat Looming as US Imposed Steep Tariffs on Solar Panels & Washers


- *U.S. slaps steep tariffs on imported washers and solar panels. Amid of protectionism moves, Trump's administration announced steep tariffs on imported washers and solar panels. The general idea is to protect the local industries and improving employment in the industries.*
- *External demand from the US to dampen in 2018. We forecast Malaysia's exports growth to the US will decelerate to 3%-5% this year as compared to 11.8%yoy in 2017.*
- *Protectionism threat remains as global downside risks. After washers and solar panels, Trump's administration is expected to impose tariff hike on steel and aluminum industries. As promised by Trump, "Make America Great Again" campaign is to attract US-based companies to relocate to the US and providing more jobs to the local Americans.*

**U.S. slaps steep tariffs on imported washers and solar panels.** Amid of protectionism moves, Trump's administration announced steep tariffs on imported washers and solar panels. The general idea is to protect the local industries and improving employment in the industries. For the first year, the US government will start off with 20% tariff on the first 1.2 million imported large residential washers in the first year, and a 50 percent tariff on machines above that number. Then in the 3rd year, the tariff will reduce to 16% and 40% respectively. Similarly to solar panels, 30% tariff will be imposed on imported solar cells and modules in the first year. In the 4th year, the tariff goes down to 15%. The tariff allows 2.5 gigawatts of unassembled solar cells to be imported tariff-free in each year.

**Malaysia is among major solar exporters.** Most of solar panels in the US are made in Malaysia, Philippines and China. Hence, major consequences of this protectionist move is increase in prices of washers and solar panels in the US in which the American consumers who would bear the cost. On the other hand, countries that export those two goods to the US will feel the pinch by lower exports sales, investment receipts and business profits.

**External demand from the US to dampen in 2018.** Apart of high base effects, further protectionist moves by Trump's administration will possibly hit global trade activities as well as exports demand on Malaysia's external trade performance in 2018. Direct exports to the US constitutes of 9% of Malaysia's total outbound shipments. More than half of the exports are E&E products and other manufactured goods. With the steep tariffs, we view the demand on manufactured goods especially products relating to washers and solar panels will drag down Malaysia's exports to the US. We forecast Malaysia's exports growth to the US will decelerate to 3%-5% this year as compared to 11.8%yoy in 2017.

**Impacts of USA's investments reallocation are minimal.** As mentioned during the presidential election, Trump indirectly urges US-based companies to reallocate from overseas back to the US. Hence, the imposition of the steep tariffs may have significant pull-effects on US-based companies to operate and manufacture in the US. Based on our observation, US capital investment in Malaysia recorded at RM 1.4 billion in 2016, a decline from RM 4.15 billion in the previous year. Referring to the approved capital investment and FDI inflows database, the US contributes less than 7% to Malaysia's investment activity. As of 2017, we noticed FDI inflows by the US have been on falling trends for first three consecutive quarters. The consecutive falls were in tandem with Trump's protectionism moves since he was inaugurated as the 45th President of the US in January 2017. Henceforth, we firmly believe the impacts of steep tariffs imposition would not have significant changes on Malaysia's overall investment flows due to its small contributions.

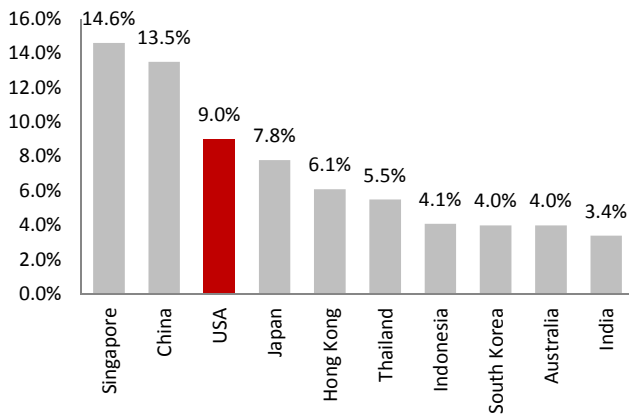
**Protectionism threat remains as global downside risks.** After washers and solar panels, Trump's administration is expected to impose tariff hike on steel and aluminium industries. As promised by Trump, "Make America Great Again" campaign is to attract US-based companies to relocate to the US and providing more jobs to the local Americans. Therefore, we foresee further protectionism moves to be made by the US government in order to 'protect' its economy. On the other hand, such moves would spur market uncertainties, drop in business confidence, affect commodity prices and to the extent could drag down global growth in the medium term. 

**Table 1: Malaysia's Exports Share by Selected Country & Goods (%)**

	USA	CHINA	EU
<b>Agriculture Goods</b>	<b>2.9</b>	<b>8.6</b>	<b>8.9</b>
Palm Oil & Palm-Based Agriculture products	2.3	5.7	7.1
Sawn timber & Molding	0.2	1.5	0.8
Natural rubber	0.1	0.5	0.6
Seafood, fresh, chilled or frozen	0.1	0.1	0.2
Other Vegetable Oil	0.0	0.1	0.1
Saw logs	0.0	0.1	0.0
Other Agricultures	0.1	0.6	0.2
<b>Manufactured Goods</b>	<b>95.4</b>	<b>81.9</b>	<b>90.6</b>
Electrical and Electronic Products	54.1	44.1	53.0
Rubber Products	7.1	11.8	6.4
Optical & Scientific Equipment	6.1	5.4	5.2
Chemicals & Chemical Products	4.2	4.6	4.2
Wood Products	4.1	4.5	3.9
Machinery, Equipment & Parts	3.5	2.7	3.9
Textiles, Apparels & Footwear	2.2	1.8	3.2
Transport Equipment	1.6	1.7	1.9
Manufactures of Metal	1.6	0.8	1.7
Manufactures of Plastics	1.2	0.6	1.4
Petroleum Products	0.7	0.5	1.1
Processed Food	0.6	0.4	0.8
Iron & Steel Products	0.6	0.3	0.5
Non-Metallic Mineral Products	0.2	0.2	0.2
Paper & Pulp Products	0.1	0.2	0.1
Jewelry	0.1	0.1	0.1
Beverages & Tobacco	0.0	0.0	0.0
Other manufactures	7.5	2.2	3.0
<b>Mining Goods</b>	<b>1.4</b>	<b>9.1</b>	<b>0.2</b>
Crude Petroleum	0.8	4.9	0.2
Tin	0.5	4.0	0.0
Metalliferous ores and metal scrap	0.1	0.1	0.0
Crude Fertilizers and crude minerals	0.0	0.0	0.0
Other Mining	0.0	0.0	0.0

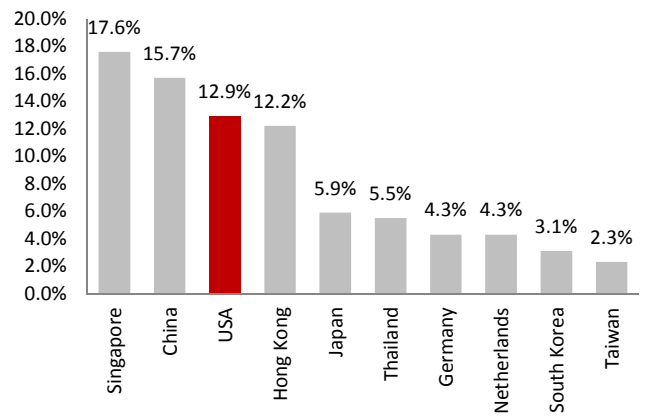
Source: CEIC, MIDFR

**Chart 1: Malaysia's Exports Share by Major Country (%)**



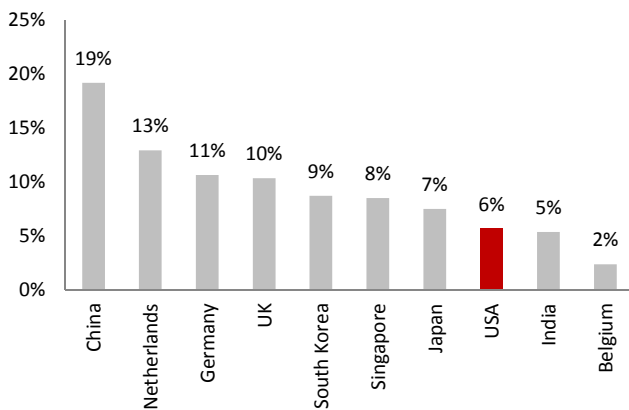
Source: CEIC, MIDFR

**Chart 2: E&E Exports Share by Major Country (%)**



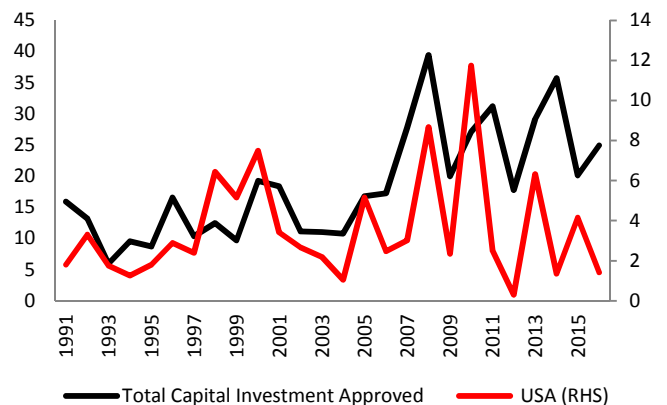
Source: CEIC, MIDFR

**Chart 3: Malaysia's Approved Capital Investment by Country (%)**



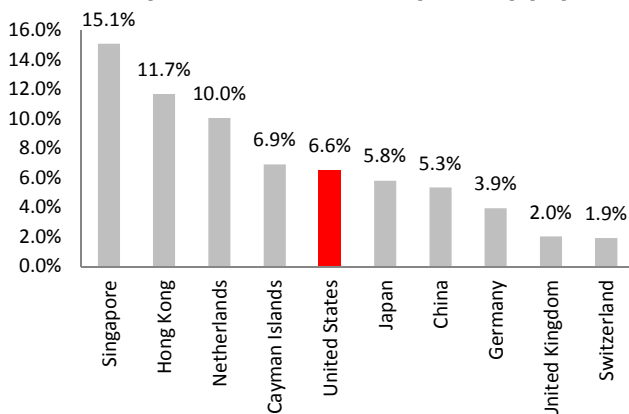
Source: CEIC, MIDFR

**Chart 4: Approved Capital Investment Performance (RM Billion)**



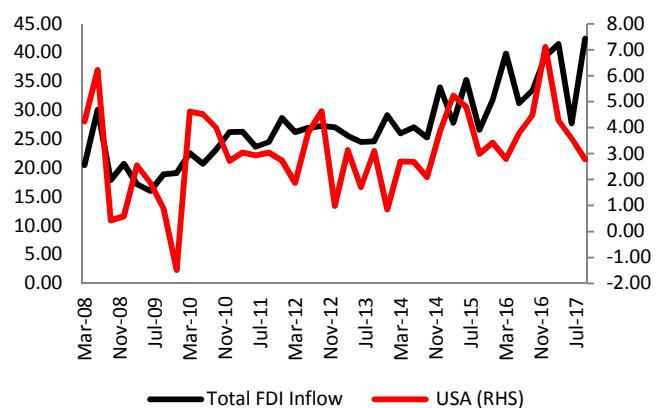
Source: CEIC, MIDFR

**Chart 5: Malaysia's FDI Inflow Share by Country (%)**



Source: CEIC, MIDFR

**Chart 6: FDI Inflow Performance (RM Billion)**



Source: CEIC, MIDFR

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