Analysis of Financial Risks and Stock Price Fluctuations of Enterprises under Sino-US Trade Friction

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Abstract. In August 2017, the US initiated a Section 301 investigation against China's trade practices, and on March 2018, the Office of the US Trade Representative accused China of unfair trade practices ranging from the forced transfer of technology to Chinese firms and intellectual property theft. For these reasons, the United States continues to impose tariffs on Chinese goods. China followed with a series of counter-measures, which became the beginning of a trade war between the two countries. It has a widespread influence on the global markets, international relations and the stability of national economies. This paper collects the stock price fluctuation and financial risk data of Intel before and after the trade war and makes a comparative analysis of the data. We explore how and when the US Trade War came and was framed. Besides China and USA, is there any other country that has had a substantial positive or negative impact from the US Trade War. Finally, we found that how the trade war affects the stock price and change the financial risk of the firms in China and the USA. According to research findings, the trade war had a negative impact on Internet stock prices and financial risks in both countries.

Keywords: Intel, stock price, financial risk, China, US.

1. Introduction

In 2018, the two world largest economies, the USA and China, exchanged rounds of imposing of import tariffs against each other, and this escalated into the US–China trade war. And now it's still existing. The Trade War was one of the most significant economic and globalized events which is characterized by escalating tariffs and trade barriers between two of the world's largest economies. The reason for starting the World Trade War was the Trump administration's concerns over China's unfair trade practices, which mostly includes technology transfer, intellectual property theft, and state subsidies for domestic industries. In order to get rid of the dissatisfaction and the worries, the United States initiated a series of tariff hikes on Chinese goods, prompting China to retaliate with its own tariffs on United States' imports. That was the start of the US-China Trade War.

The trade war impacted lots of firms and companies' financial risk and the economy of the whole United State and China. The increase of tariffs leads to an embrace state that both country's firms have to increase their cost for business, this point shows obviously on the firms which are heavily reliant on bilateral trade. During this time period, both countries experienced slow-growing economies, even having negative implications for global markets and investor confidence. During the Trade War some other country earns some benefit in it, because both countries need to change their export and get imports from other countries. Other countries took advantage of the situation between the US and China by diversifying their relationship in trading goods, leading to reduced dependency on both the US and China. And look at the influence of the trade war in the past from the present, although the temporary truces provide relief, but the underlying problem is still there, highlights the importance of continued dialogue and cooperation to address longstanding trade imbalances and promote economic harmony on the global stage.

The firm that chose to discuss and analyze is Intel. Intel as a global technology giant, founded in 1968, as one of the world's largest semiconductor companies, Intel manufactures microprocessors, chipsets, and numerous hardware for computers and various electronic devices [1]. Intel's

contribution empowering businesses and individuals worldwide with more efficient, more reliable and faster computer solutions [2]. Choosing a technology company to compare can show great differences before the Trade War and after the Trade War, because in the present, technology is quite contestable, and if the tariff between the two countries goes up, the first few goods that are influenced will include technology.

2. Data Analysis

Since the US-China Trade War started, Intel has not been sidelined and has been embroiled in this severe trade war. Before the US-China trade war, the revenue of the company was slightly growing by around 13% each year from 2017 to 2018, the revenue of 2018 is $70.8 billion dollars. The Gross Margin of Intel went down less than 1 point, from 62.3% to 61.7%, and the tax rate went down from 52.8% to 9.7%. The Net Income of 2018 also had a qualitative leap from $9.6 billion to $21.1 billion dollars [3]. All the financial data from 2018 shows Intel corporation as a whole was developing in a positive direction, and that will be the data before the Trade War started.

After the Trade War started, all the data shows negative growth, the revenue of 2018 to 2019 went from $70.8 billion to $72.0 billion dollars. There was only 2% growth, compared to last year's data, this growth rate is quite small. The Gross Margin went from 61.7% to 58.6%, went down by 3.2 points, but the gross margin was still at a healthy place. The net income of 2019 was 21.0 and there was almost no difference from 2018, the data from 2019 can show the public that the company does not have the almost same growth data as 2018, stagnating or even growing in reverse [4].

In the second and a half year of the US-China Trade War, the overall data of the company has improved. The revenue went up from $72.0 billion dollars to $77.9 billion dollars. Although it did not grow as much as in 2018, the data can be seen from the data that the company has adapted to the trade war and found business opportunities to bring the overall financial information of the company back to the state before the US-China Trade War. The Gross Margin went down 2.5 points to 56.0%, the rate of gross margin is still at a good position. The net income is still similar to last two years data which is $20.9 billion dollars [5, 6].

The data of Intel Corporation in 2021, was showing the same growing rate as 2021. These data leads to the point of view that although the Trade War impact the financial risk of Intel Corporation for about 1 year, but as the company took some policy to let the revenue back as usual, and the temporarily suspended trade war also give Intel Corporation some time to adjust the overall company and policies, also adapt to the new environment.

3. Financial Risk Analysis

After the outbreak of the US-China Trade War, Intel faces 29 financial risks of all kinds of problems in total in Quarter Four of 2019. And it does not change more than 1 until the Quarter Four of 2020, the risk goes up to 36 total risk, seven risks were added, and three risks were changed [7]. The total risk stays almost the same until right now in 2023. There were no risks which were being removed. The three main risks of Intel Corporation were Technology and Innovation, Ability to sell, and Finance and Corporate. In the whole market, only Technology and innovation, and ability to sell were above the sector average, and all the others were below the sector average, which accounts for 59% of the company's total risk. Referring to Figure 1, we can see obvious differences between Intel and other peers.

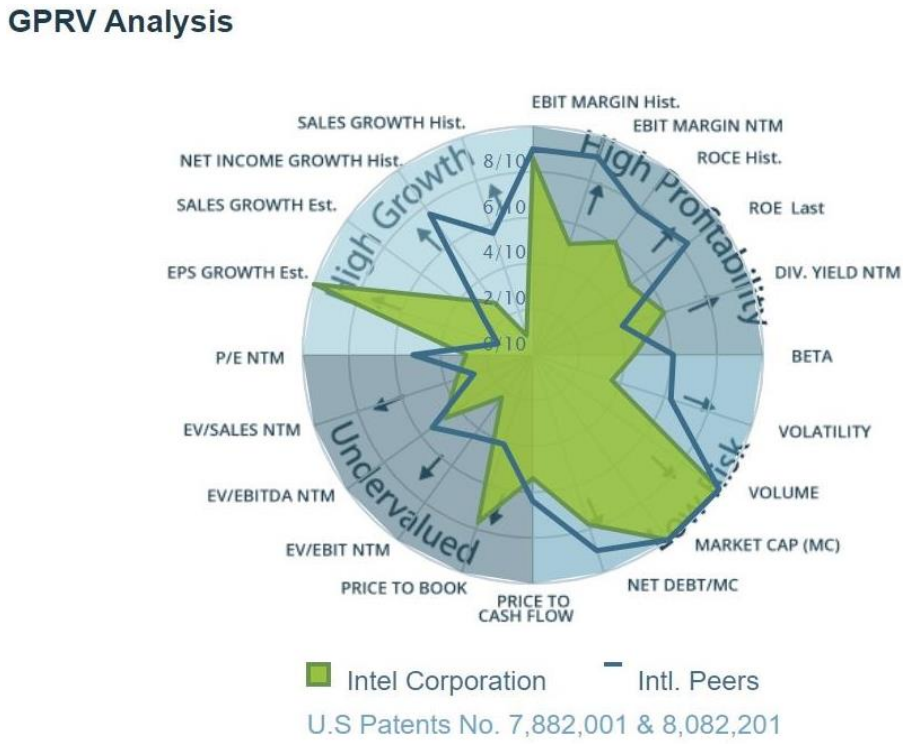

Figure 1. GPRV analysis

Intel has a strong EPS growth Est, market CAP, market volume, net debt and price to book value [8]. The actual parts that Intel is not good at are EBIT Margin Hist, volatility, net income growth Hist, and P/E NTM. And among these disadvantages, the biggest problem is net income growth and sales growth, these were far more behind than the other companies. If the company is not able to find a solution in a timely manner, this will be a fatal disadvantage for Intel in future peer competition. If they fill this gap in a timely manner, Intel can be considered one of the top performers in financial risk.

Of course, the US-China Trade War also affected the exports of Intel's production. The production produced by Intel Corporation has moved them to Vietnam, because of the Trade War, they have to move these away from China. The main reason causing the move was probably the Trade War, because of the import duties, the cost for Intel to make production in China is more expensive, and the cost of production in Vietnam is much cheaper, and that should be a good choice for Intel, Dan Olds said [9]. Because of the moving production from China to Vietnam, this makes Intel's position in the Chinese market have decreased. The starting of the US-China trade war does not reflect well on Intel's financial data. 28% of Intel's revenue will come from China in 2019, and about 10% of its equipment, net properties and plants are also located in China. At the same time, the Chinese government totally wants the whole country to reduce the dependence on Intel's production and other American companies.

As a conclusion of the analyze of financial risk of Intel, there were only slightly difference before the Trade War and after the Trade War, the main reason is before the US-China Trade War, Intel changes the market from individual computer processor to multi parts, that takes the company to a state that if one part of the company is struggling, there will be some time for them to fix the problem and sell the goods to other people again. Diversified departments help Intel Corporation overcome the challenge from the trade war [10]. Of course, the cessation of the trade war also helped Intel Corporation. The timely suspension of the trade war and the diversification of the company helped alleviate Intel's negative growth problem, and gradually stabilized in the second year after the start of the Trade War.

4. Stock Price Analyze

The stock price of a company is closely related to the company's revenue. As the company's revenue increases, the stock price will also increase. If the revenue goes the opposite way, the stock price will also follow suit.

The US-China Trade War also had a certain impact on Intel's stock price. Since the time when the trade war started, the stock price of Intel had an arduous time. Intel, as one of the most popular industries under test, has attracted many people to invest and speculate in stocks, and Intel's stock price has been steadily rising in recent years. Since the beginning of the trade war, although the stock price has not significantly increased or decreased, it has remained stagnant at the original price, proving that the trade war has had a certain impact on Intel's stock price. And in 2019, although the stock price keeps the same, the stock price was also under-performed than other semiconductor peers [11]. From the data sheet, the stock price annual percent change of 2018 was 4,21%, compared to the previous few years, increase of 30.70% in 2017, increase of 8.78%, decrease of 2.21% and increase of 44.30%, the increase in 2019 was quite slow [12]. After the first one-year trade war, Intel seems to have mostly become familiar with the market trade environment of trade wars, the annual percent change of 2019 went back to 30.70% again, the data is similar to the data right before the Trade War. In 2020, the annual percent change turns back to negative 14.70%. From the data over the years, it can be seen that every three or four years, the annual percent change value will be negative for one year. The overall annual percent change value of Intel is not very stable, mostly related to various political, financial conditions, and company adjustment policies at that time. It is worth nothing that although the annual percentage change has been fluctuating significantly, the average stock price has shown signs of continuous increase compared to previous years.

5. Conclusion

All in all, there is no doubt that the US-China Trade War has a certain impact on Intel. In other words, the trade war has a certain indelible impact in various foreign trade industries. How to resolve this crisis has become the top priority for the company. As long as the company has good and fast enough response policies, the financial risk will be much smaller compared to the other companies at the same period, which can also help you get back on track faster.

At the beginning of the US-China Trade War, Intel had a significant downward trend in various data, but one year after the Trade War began, Intel's overall situation improved from financial risk and the stock price. In 2019, almost all the values returned to before the Trade War began, and the temporary suspension of the Trade War in 2021 helped Intel stabilize various values. Overall, the timely replacement of manufactures from China to Vietnam at the beginning of the Trade War and the timely formulation of corresponding policies helped Intel stand firm in the Trade War. Last but not least, Trade War is just like the actual war, although the forms are different, both trade wars and wars will have advantages and disadvantages for both countries. Although trade war will not have millions of people sacrifices like wars. The same thing as wars is that the country's economy will not continue to rise as before, and some may even experience economic recession. The reason why trade war seems to have little impact is that economic recession often occurs in the shadows, and only when it comes to personal interests will a large number of people realize the seriousness of the situation. In summary, a world without war is the most ideal, and any form of war should be avoided as much as possible.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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