TRADE NEWS WEEKLY

April 8–April 12, 2019

A summary of international business news prepared by the Hawaii Foreign-Trade Zone 9 with the collaboration of the Research and Economic Analysis Division of the Department of Business, Economic Development & Tourism, and based on research and shipment data from Panjiva, Inc. which tracks companies involved in global trade. Other news sources may occasionally be included where indicated.

WTO Weighs in on National Security Actions

The first issue, which affects the U.S. position on the section 232 "national security" tariffs and quotas on steel and aluminum, was whether the WTO could evaluate "objectively" whether a country correctly invoked national security concerns when it took trade-restrictive actions. As I've reported in earlier updates, the U.S. has argued (including in the Russia-Ukraine dispute) that national security measures are "self-judging" and "non-justiciable." In other words, the U.S. has argued that, in invoking national security, WTO member states are free to determine for themselves whether national security is genuinely involved ("self-judging"); moreover, the U.S. has argued that the WTO is powerless to evaluate the basis for invoking national security ("non-justiciable").

Friday's decision by a three-member panel organized under the WTO's Dispute Settlement Understanding was the first to address the national security exemption to WTO obligations, which is contained in Article XXI of the General Agreement on Tariffs and Trade ("GATT"), the organic law of the WTO. The panel decided that it had jurisdiction under the WTO Dispute Settlement Understanding to evaluate "objectively" the reasons for invoking national security and not leave that decision to the complete discretion of each WTO member.

Could the United States successfully argue that the steel and aluminum situations constituted a "war or emergency in international relations" sufficient to justify the steel and aluminum tariffs? We will have to wait and see; however, the burden on the United States will be great. The Russia-Ukraine panel evaluated the "war or national emergency" language to require something more than political or economic differences between WTO members: "political or economic differences between Members are not sufficient, of themselves, to constitute an emergency in international relations…. An emergency in international relations would, therefore, appear to refer generally to a situation of armed conflict, or of latent armed conflict, or of heightened tension or crisis, or of general instability engulfing or surrounding a state." WTO Panel Report (05 April 2019) at para. 7.76. The panel further said that "objectively" evaluating the import restrictions taken in consequence of the "emergency" found would require an "objective relationship between the ends and the means."

In the forthcoming WTO disputes on the steel and aluminum tariffs, the United States would need to support its import restrictions by showing that a "war or other emergency in international relations" existed and that the restrictions were objectively related to the existing emergency.

Most reports have noted that the U.S. position was undermined by the Russia-Ukraine panel report issued on Friday 4/12.

Source: The Law Offices of Lewis E. Leibowitz

U.S.-China Trade War Supply Chain Shifts Have Started

Over six months on from the Trump administration's application of duties of between 10% and 25% of around $250 billion of Chinese goods, it is clear that the tariffs are finally cutting exports. There was a 3.9% year over year drop in Chinese seaborne exports to the U.S. in March. That's led to a displacement by imports from India, Malaysia, South Korea, Taiwan and Vietnam among others.

This report looks at the impact of tariffs on U.S. imports of containerized freight from China which fell by 4.1% year over year in March and by 6.4% in 1Q 2019 as a whole.

IMPORTS FROM CHINA FINALLY START TO DESCEND

Chart shows U.S. seaborne imports of containerized freight from China.
Source: Panjiva

The analysis is based on products, defined at the HS-4 level, where there has been a significant decrease in imports from China where tariffs have been applied and where there has been a marked increase in imports from the rest of the world. In many instances though there has been an overall drop in imports, partly reflecting stockpiling that had occurred in 4Q ahead of – now twice-delayed – tariff increases.

The leading products in terms of absolute drops in Chinese imports where tariffs have been applied to some or all products in the relevant HS-4 paragraph have largely focused on consumer goods including tires, furniture, concrete construction, and home appliances including fridges and vacuum cleaners.

Trump's Jet Leverage Attempt Could Hamper EU Talks

The U.S. Trade Representative has announced a list of 326 import lines from the EU which it may apply tariffs to in retaliation for EU subsidies provided to Airbus. The review, under the section 301 process, will likely run for several months and could easily jeopardize nascent EU-U.S. trade talks. The latter are contingent on neither side applying new tariffs during the period that negotiations are underway.

Analysis shows the initial list accounted for $23.8 billion of U.S. imports from the EU in 2018, requiring an average 47.0% tariff rate to achieve the required $11.2 billion of retaliation. Aerospace products accounted for $9.03 billion of the imports, while food and beverages represented $2.81 billion and $7.14 billion, respectively.

Other products targeted include apparel, tools and motorbikes. Notably, most of the targets are in the consumer space, though the appeals process – and likely EU counter-retaliation – will raise risks for industrial supply chains in the run-up to a decision on the final tariff list.

The Remarkable Resilience of America's Demand for Imports

U.S. seaborne inbound shipments experienced a return to growth in March with a 6.7% year over year increase following a 4.1% drop in February. The latter was only the second downturn in the past 30 months and, as a result, there was a 2.6% increase for the first quarter in total.

At the national level, there was a 3.9% drop in imports from China in March, bringing the first quarter total to a 5.7% drop. That likely reflects continued effectiveness of U.S. tariffs on around $250 billion of imports that have been in place since September.

SHORT-LIVED DOWNTURN OR SIGNS OF THE END OF THE GROWTH CYCLE?

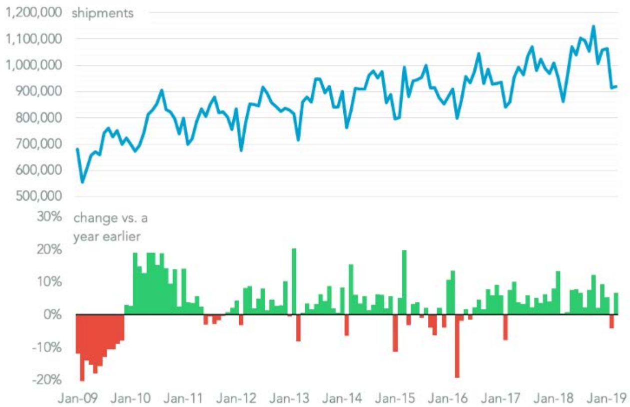

Chart shows U.S. inbound, seaborne shipments.
Source: Panjiva

That's been offset by a surge in shipments from Asia excluding China of 17.8% year over year in March. The fastest rates of growth were seen in Vietnam, where shipments climbed 35.2%, India (26.0%) and Thailand (23.9%), all of which saw an acceleration in growth from the prior three months.

One explanation is a switch in manufacturing centers to those countries away from China as a result of the imposition of tariffs. A counter-point to that factor is that imports from the European Union, which doesn't have the labor cost advantage of the Asian markets, also improved by 11.3%, up from just 1.7% a month earlier.

Industrial demand for imports was strongest among investment products with imports of machinery and electricals having risen by 10.4% in March. Raw materials meanwhile saw a downturn with iron and steel and chemicals both down for a second month with declines of 2.6% and 3.3%, respectively.

Consumer demand was the other way around with longer-term consumer durables having declined – imports of automotive products fell 13.1% while furniture having dropped 2.1%. Those two groups have also been afflicted by tariffs on Chinese exports, so may not be reflective of consumer demand. Indeed, short-run durables such as apparel experienced a rebound as new season products come into stock with a 7.4% year over year improvement.

DSV Dominates Forwarders' Growth

Freight forwarders operating services into the U.S. by sea, saw a 6.7% growth in shipments in March as imports from China were replaced by volumes shipped from other Asian markets. The weakest performers among the top 10 forwarders included UPS – which saw a 14.5% drop in shipments – Kerry and CH Robinson as a result of their higher-than-average exposure to China. DSV did best with a 26.4% surge in traffic in March, which came at the same time as it sought to complete its takeover of Panalpina.

Shipments from Europe by DSV jumped 82.6% year over year in March, illustrating the importance of management associated with scale. The increase in DSV's business was helped by a jump in imports by wind-turbine maker, Vestas, luxury goods maker, Estee Lauder, and by automaker, Ferrari via its Maserati brand.

VESTAS TURBOCHARGES DSV'S VOLUME GROWTH

Chart segments U.S. seaborne imports handled by DSV according to consignee name.
Source: Panjiva

Asia Exports Dropped in February, Little Hope Elsewhere in the World

Exports from the Philippines fell 0.9% year over year in February, the Financial Times reports, marking the fourth straight decline and the ninth in the past 12 months. As a result, total exports from across Asia fell 10.4% year over year, Panjiva analysis of S&P Global Market Intelligence for 14 countries shows.

While only three countries have reported data for March, the signs are not good with South Korea and Taiwan both reporting a downturn. There is some hope, however, for countries, such as Vietnam which saw a 6.0% rise in exports in March, which are beneficiaries from supply chains being adapted in response to the U.S.-China trade war.

Data for the rest of the world for February is not yet complete, though again the signs are not auspicious with nine of 13 countries across the Americas, Asia and MEA having reported a decline. That includes a drop for Germany, France and Switzerland though the U.K. has seen an increase, likely due to accelerated pre-Brexit deliveries.

A DOWNTURN HAS BEEN A LONG TIME COMING

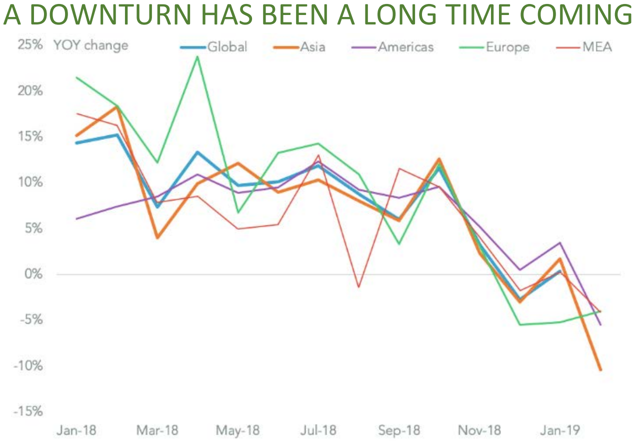

Chart segments YOY growth in exports by origin. Asia data for February based on final figures, other regions based on average for countries that have reported so far. Calculations based on S&P Global Market Intelligence data.
Source: Panjiva

Asia Exports Dropped in February, Little Hope Elsewhere in the World

U.S. import prices continued to decline in March. Excluding food and fuel, import prices fell 0.7% year over year. That was the third straight month of deflation and the fastest rate of decline since September 2016. Including volatile components, headline import prices were unchanged and outpaced by exports which rose by 0.63%. That should act as a small brake on the increasing U.S. trade deficit.

The drop in underlying import prices has been mainly down due to continued deflation in imports from China, which fell 0.9% year over year. There has also been a slide in prices more broadly with import prices from ASEAN declining 1.1%.

In the case of China, the reduction has gathered pace since September. It likely reflects an element of Chinese exporters absorbing some of the cost of higher tariffs compared to a year earlier. In turn, such actions may have paid dividends in retaining customers for higher value, airborne products given imports from China likely increased in March in dollar terms, as outlined in Panjiva research of April 12, but have fallen in seaborne shipment terms.

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