

TRADE NEWS WEEKLY

May 6–May 10, 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.

Slow Progress On Trade Agreement Leads to Increased Tariff On China Goods

President Donald Trump has committed to a May 10 increase of duties on Chinese exports to 25% for products where 10% tariffs were applied in September, in part due to frustration with negotiations that are going “too slowly”. The backsliding in talks is the surprise rather than the tariff threat given the increase has been repeatedly delayed in the past six months.

Imports of "list three" products fell 25.9% year over year in February, including a 77.1% drop in PC components and a 19.9% slide in furniture – the largest consumer product-line afflicted by tariffs. The President’s stance may also be caused by a worsening trade-in-goods balance for March – with advance data having been released on May 3 – which reached \$71.4 billion, or 3.0% higher year over year for all countries after two months of declines.

A major driver was the automotive sector where U.S. exports have now fallen for eight straight months and imports risen for eight months. The latter may have been key to the President’s decision to impose higher tariffs on top of the wider Chinese package.

China Lost The April Trade Battle

China’s trade activity grew by just 0.6% year over year in April after an unexpected 2.3% drop

in exports. The latter shouldn’t be a surprise given worsening business sentiment towards trade in both China and the U.S. The slip in China’s exports increases the likelihood of a pan-Asia trade slowdown – Asia ex-China exports fell 3.3% year over year in March.

The performance of China’s trade with the U.S. in April will likely add to the hawkish stance being taken by the Trump administration, which has implemented increases in tariffs from May 10. China’s exports to the U.S. only fell 13.2% year over year in April while its imports dropped 25.8%. Yet, the relative scale of the two meant that China’s exports fell \$4.77 billion compared to its imports which were down \$3.59 billion. That would suggest the Trump administration’s tariffs delivered their objective in April.

CHINA LOST A COUPLE OF BATTLES



Chart segments year over year change in Chinese trade with the U.S. by direction. Calculations based on China General Customs Administration data.

Source: Panjiva



521 ALA MOANA BLVD, STE 101 • HONOLULU, HI 96813

Tel. 808-586-2507 • administrator@ftz9.org

www.ftz9.org • www.facebook.com/HawaiiFTZ

Twitter at: @FTZ9

Process for List 3 Tariff Exemptions Released Soon

U.S. Trade Representative Robert Lighthizer has confirmed a process for requesting exemptions from all section 301 duties on Chinese exports – not just those applied under list 1 and 2 in July / August 2019 – will soon be put in place. Even if such a mechanism is put in place the chances of a timely resolution to requests is low. Only 49.1% of the 13,761 requests made for list 1 / 2 exemptions have been decided upon in early May. There are 5.2 times as many tariff lines in list 3 where 10% duties were applied in September. The need for exemptions will become more pressing if the Trump administration increases those duties to 25%. U.S. imports of list three products fell 25.9% year over year in February while preliminary data from China suggests similar occurred in April.

China Rolls Out Its First Full 5G Covered Free Trade Zone

The Free Trade Zone in Qianhai and Shekou Area in Shenzhen has become the first FTZ in the country to deploy 5G technology, according to Global Times.

With 111 5G base stations built in the area, the 5G network can reportedly reach a peak bandwidth of over 1.5 gigabits per second (Gbps) with super-low latency of less than 8 milliseconds. The government hopes to leverage the zone’s prime location next to Hong Kong and Shenzhen to build the area into a new international hub.

The 5G network was deployed by China Unicom, one of three state-owned telecommunications operators in the country. Last week at a conference in Shanghai, the company announced that they would be launching trial 5G services in Beijing, Shanghai, Guangzhou and Shenzhen, among other major cities and economic zones in the PRC. According to Caixin Global, China Mobile and China.

Telecom, the two rival carriers in China, are set to launch their 5G services by next year.

Source: ThatsMag-China Website

Deficit Data Details Show Trade Policy Is Working

U.S. international trade activity expanded for a 31st straight month in April after rising 1.7% year over year, Panjiva analysis of official data for goods and services shows.

Import growth of 2.1% beat out exports’ 1.3% increase with a similar pattern repeated for both goods and services. As a result, the total U.S. trade deficit increased by 5.4% year over year in March to reach \$50.0 billion.

That followed two months of declining deficits and was led higher in part by the automotive sector. The latter would provide an extra excuse for the administration to proceed with section 232 automotive duties from May 18.

DEFICIT EXPANSION MAKES A BRIEF COMEBACK

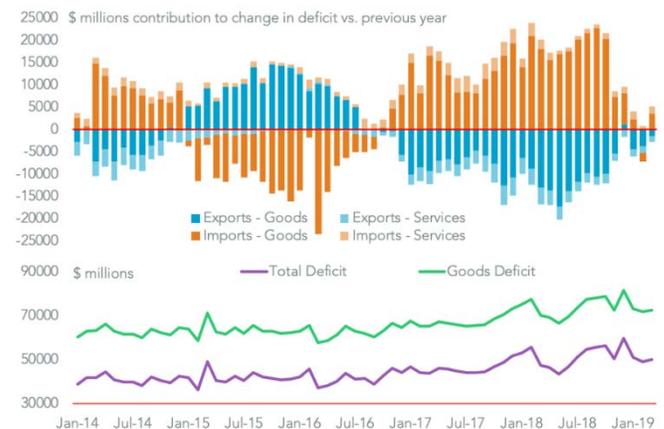


Chart segments change in U.S. trade deficit by direction. Calculations based on U.S. Census Bureau figures.

Source: Panjiva

The increase in the total deficit came despite a 19.8% decline in the trade-in-goods deficit with China. It is tempting to note that the resulting \$20.7 billion deficit is the lowest since March 2014, though the figure is seasonal with March being the annual trough.



521 ALA MOANA BLVD, STE 101 • HONOLULU, HI 96813

Tel. 808-586-2507 • administrator@ftz9.org
 www.ftz9.org • www.facebook.com/HawaiiFTZ
 Twitter at: @FTZ9

The drop will nonetheless provide President Donald Trump with surety that his tariff-led trade strategy is working. Preliminary data from the Chinese government suggests the same may have occurred in April, supporting the more hawkish stance being taken by the Trump administration.

The reduction in the deficit with China has been offset however by a 16.7% surge in the deficit relative to the EU to reach \$14.2 billion. That will overshadow talks between the U.S. and EU that are continuing this week, which are already fraught with risks from disagreements on agriculture, autos, metals and aerospace products.

Solar Power Lights Up As Tariffs Become Business-As-Usual

The U.S. has reached two million solar power installations, double the level of three years ago. That's come despite the imposition of tariff-rate quotas (TRQ) after the section 201 review by the Trump administration in January 2018. Despite the TRQ there was a 110.8% rebound in seaborne imports of solar panels in the three months to April. 30. There has been a shakeup in leading suppliers though. Jinko Solar accounted for 20.8% of imports, mostly from Malaysia, after a 10.6x surge in shipments. Longi also relied on Malaysia for its 13.1% share of shipments while Trina and Vina Solar's imports mostly come from Vietnam while Hanwha Q-Cells has reverted to South Korean panels.

Mexican Steel And Aluminum Sticking Point to Finalizing USMCA

Steel and aluminum tariffs imposed by the U.S. on Mexican exports are now the main sticking point in ratification of the U.S.-Mexico-Canada Agreement. Mexico's Undersecretary for North America Jesús Seade has stated "there cannot be a close" of USMCA implementation without

removing the tariffs following a meeting with the U.S. government.

Mexico's U.S.-bound exports of steel and aluminum products covered by the duties fell 26.8% year over year in March. That was led by a 36.2% slump in shipments by Tenaris while ArcelorMittal's dropped 26.8%. Ternium meanwhile increased its exports by 18.8%, suggesting tariffs do not necessarily preclude commercial success.

Brooks To Run Production From Vietnam Ahead Of Duty Risks

Brooks Running plans to shift most of its production of training shoes to Vietnam from China because of the threat of tariffs. The change will prove "disruptive, but the reality" according to CEO Jim Weber. Brooks has already started altering its supply chain. U.S. seaborne imports from Vietnam have risen by 25.9% year over year in April while those from China fell 35.2%. An industry-wide shift to Vietnam is already well-established. Suppliers from Vietnam accounted for 45.9% of U.S. seaborne imports in the 12 months to Apr. 30 from 36.1% in 2013. Shipments from China fell to 26.9% from 33.2% over the same period.

Labor And Healthcare In Focus, Steel Bigger Issue In USMCA

The White House will include tighter labor law enforcement rules in the enacting legislation of the U.S.-Mexico-Canada Agreement, NEC Director Larry Kudlow has stated. That's a response to Democratic Party requests, which have been rapidly followed by further calls from the Democrats for details on how pharmaceutical rules will impact upon healthcare costs. Both issues are likely to be a side show, however, when compared to steel and aluminum tariffs where Mexico and the U.S. may be close to reaching a compromise.



521 ALA MOANA BLVD, STE 101 • HONOLULU, HI 96813

Tel. 808-586-2507 • administrator@ftz9.org

www.ftz9.org • www.facebook.com/HawaiiFTZ

Twitter at: @FTZ9

Logistics Jobs Grow For 105 Months

U.S. logistics employment grew for a 105th straight month in April with a 3.3% rise on a year over year basis. That was well below the 5.3% seen in 2018 as a whole but similar to the first quarter. The only sector to see a decline was rail with a 0.6% reduction while marine employment increased by just 0.3%. A global slowdown in trade may jeopardize U.S. logistics employment. Yet, with marine imports having risen by 3.0% in April, based on preliminary data, that effect has yet to have an impact on the U.S.

No Protection For South Korea Automotive Duties In New Deal

South Korea's Minister of Trade, Yoo Myung-hee, has announced a visit to the U.S. to "deliver our stance that South Korea should be exempted from the tariffs" on autos as part of America's section 232 review of the industry. A decision from President Trump is due by May 18, though there are potential delays that could last until November 30 if additional information is requested. It's worth noting that the status of auto tariffs were not secured as part of the KORUS renegotiation that was completed last year as was the case for steel and aluminum tariffs.

Tesla Sees Critical Battery Metal Supply Shortage

Tesla's manager for battery metal supplies, Sarah Maryssael, has flagged an emerging shortage of battery metals including cobalt. That comes as cobalt prices have fallen 41.2% in the three months to May 8 versus 4Q 2018. The collapse in prices may be linked to lower U.S. demand, where Tesla's battery factory is located. Imports fell 4.8% year over year in the three months to Feb. 28. There has been a consolidation in supplies with the top four regions – including the EU, Canada, China and Norway – having accounted for 65.3% of imports in the 12 months to February 28. An eventual

decline in global supplies, combined with the consolidation of market power, may work to the benefit of major shippers to the U.S. including Freeport-McMoRan and Mitsui.

Panama Canal Reports Getting Shallower

The Panama Canal Authority has announced yet another reduction in allowable draft for vessels transiting the canal, this time to 13.11 meters from 13.41 meters and compare to a 15.2-meter design draft. The challenge is still being caused by reduced water availability caused by the current El Nino weather event. The new rule may start causing problems for global shipping given the potential need to reduce draft by offloading cargo or redirect vessels.

Wider Iranian Sanctions Could Deepen Hormuz Risks

The U.S. government is extending sanctions against Iran to cover steel, aluminum and copper and may in due course broaden them to cover petrochemicals too. That follows the imposition of sanctions against oil exports. It will introduce both supply chain uncertainty and the risk that the Iranian government will target the Straits of Hormuz for retaliatory closure.

