

TRADE NEWS WEEKLY

July 8–July 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.

New Product Exclusions - China 301 List 1

On July 8, 2019, the United States Trade Representative (USTR) announced the sixth set of approved product exclusions from China Section 301 List 1. Since December 2018, USTR has implemented six sets of product exclusions in response to product exclusion requests. The sixth set includes 110 new specially-prepared product descriptions for merchandise such as certain pumps, pump parts, electric motors, compressors, fork-lift trucks, shovel loaders, molded buttons, and machine parts. The USTR is expected to approve additional product exclusions on an on-going basis.

Exclusions from China Section 301 List 1 duties are available for any importer for any product that is properly classified and falls within the specially-prepared product description and ten-digit classification. This is true regardless whether the importer filed an exclusion request. All China Section 301 List 1 product exclusions are retroactive to July 6, 2018.

Importers may benefit through filing Post-Summary Corrections or Protests for those entries now covered by an exclusion retroactive to July 6, 2018 to secure refunds plus interest.

Source: Marshall Miller & Company P.C.

Trump Triumphs In May Trade Battle

The pressure from tariffs on U.S. exporters eased slightly in May with a 24.5% sequential increase in exports to China for tariff-afflicted products. That was driven by a 5.0x rise in crude oil exports, a 1.5x rise in medical device components and a 1.7x rise in soybean shipments.

Yet, that hasn't prevented a 13.9% year over year drop in exports in May as a result of the tariffs' original imposition. Chinese exporters to the U.S. saw a similar phenomenon. There was a 13.2% sequential increase in "list 3" products – where duties were applied in September at 10% – as shippers sought to beat an increase in duties to 25% from late May with network equipment and furniture shipments rising markedly.

However, Chinese exports of tariff-related products still dropped 27.4% year over year. In dollar terms, U.S. exports fell \$1.1 billion year over year in May while China's exports fell \$6.2 billion.

The resulting "win" for the U.S. - explains the Trump administration's willingness to retain tariffs while negotiations continue. It also reinforces China requirement, restated by the Ministry of Commerce, to include tariff removal in any deal.



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

Overall bilateral trade in tariff-related products fell \$7.3 billion in May and by \$41.1 billion from July 1, 2018 to May 31, 2019 compared to the same period a year earlier, indicating the overall economic damage caused by the trade war.

MAY REBOUND DRIVEN BY STATE-OWNED ENTERPRISE PURCHASE

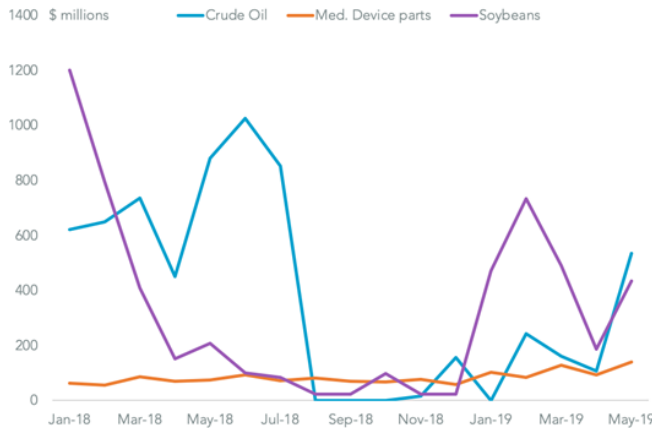


Chart segments U.S. exports to China by product for crude oil, medical device parts and soybeans.

Source: Panjiva

HP, Dell Take Different Paths To Tackle Tariffs

Laptop manufacturers including Dell and HP are planning to shift production out of China according to Nikkei. While not yet officially confirmed such a move would likely be triggered in the event that U.S. tariffs on Chinese exports of laptops are applied. They have recently been postponed following the meeting between President Donald Trump and President Xi Jinping.

China accounted for 91.4% of U.S. computer imports in the 12 months to May 31. An 11.1% year over year surge in May could represent early inventory build ahead of tariffs. Dell’s supplier Compal has already begun to shift some production to Vietnam – China accounted for 88.7% of Dell’s U.S. seaborne imports in the 12 months to Jun. 30.

HP meanwhile, supplied by Quanta, still sources 100% of its laptops from China and has

increased its imports by 14.2% year over year in 2Q. That may be a sign of pre-tariff stockpiling.

DELL HEADS AWAY FROM CHINA, HP STARTS STOCKPILING

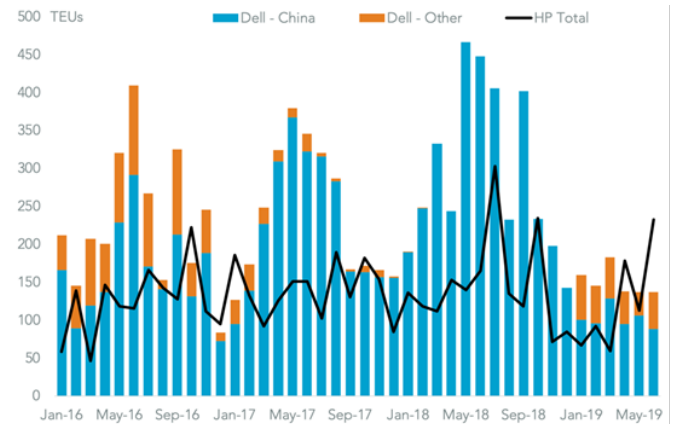


Chart segments U.S. seaborne imports of laptop computers by consignee and location for Dell and HP Inc.

Source: Panjiva

Trump’s Tariff Fingerprints Clear in June Import Drop

U.S. seaborne import growth came to a juddering halt in June. Data shows a 2.7% year over year in June, with containerized freight having seen a 3.0% slide. That was the first non-seasonal (lunar new year) decline since June 2016. That also means growth for the second quarter overall slowed to 0.5% year over year from 2.7% in 1Q and 9.4% in 2018.

The decline was driven entirely by imports from China which slumped 9.8% year over year in June compared to a 1.6% decline a year earlier. That’s likely driven by the increase in tariffs implemented in May.

Imports from the rest of world increased by 2.8%, confirming the switching of sourcing away from China on a broad basis. Much of the slack was taken up by suppliers from Asia ex China with a 6.5% increase. There was a significant surge by manufacturers in the newer production centers including Vietnam – imports from which surged 20.5% higher year over year – while those from India increased by 12.8%.



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

Imports from the European Union meanwhile fell 0.6% year over year, reversing an improvement of 4.5% in the prior three months.

CHINA, AND EUROPE, THE MAIN DRIVERS OF U.S. IMPORTS DOWNTURN

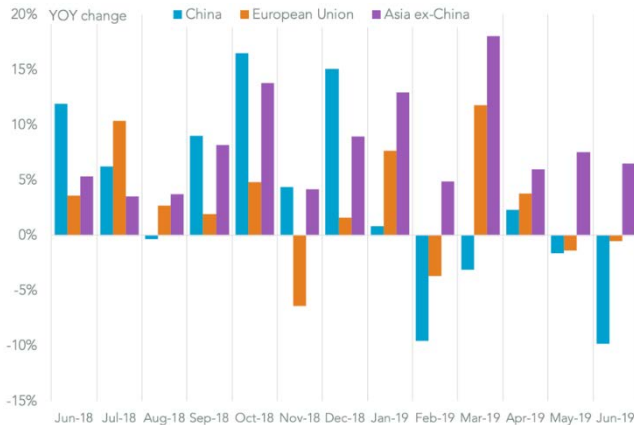


Chart segments change in U.S. seaborne imports by origin. Source: Panjiva

Hapag-Lloyd Picks A Plum Opportunity With Reefer Investment

Container-line Hapag-Lloyd has placed the largest order for refrigerated containers (“reefers”) on record, adding 14.0% to its capacity to reach 210,000 TEUs. The company will take delivery through November to take advantage of the fruit export season from Chile and Peru.

Exports of fruit from the two countries reached 422,300 in the 12 months to April 30, up 10.3% year over year. That growth was led by a 16.1% expansion in shipments to China while shipments to Europe, the largest destination, climbed by 9.5%.

Leading exporters from Chile and Peru to China in the 12 months to April 30 included cherry-specialist Copefruit with 2,000 TEUs of exports and Dole Food’s Chilean subsidiary with nearly 1,400 TEUs of cherries, plums and apricots shipped.

Vietnam Doubles Down On Transshipment Concerns

Vietnam's Prime Minister, Nguyen Xuan Phuc, has restated the need for the country's customs authority to clamp down on mis-labelling of exports intended to facilitate transshipments, particularly from China. That's not a new concern for the government as the acceleration in exports to the U.S. led to a \$45.9 billion trade surplus in the 12 months to April 30 that has already drawn the ire of President Trump.

Back-to-School Bounce For Apparel, Drop For Backpacks Down To Duties

The U.S.-China trade war has complicated supply chain decisions for many U.S. retailers heading into the back-to-school shopping season. Tariffs were threatened against imports of kids apparel, but subsequently were postponed following a meeting between President Trump and President Xi.

The threat of tariffs likely drove a 10.1% year over year surge in imports of kid’s clothes from China in 2Q. There’s still a risk that tariffs are applied at short notice, potentially acting to the benefit of manufacturers in Vietnam who already sell to Gap, JCPenney and Adidas.

Imports of backpacks are already covered by 25% duties as of late May, likely leading to a 29.0% rise in imports from outside of China.

It’s not all about tariffs though. Imports of stationery from China – which are not yet eligible for tariffs – fell 24.8%, possibly reflecting the ongoing digitization of classrooms.

Game Over For Nintendo In China As Switch Switches To Vietnam

Videogame manufacturer Nintendo will move to diversify production of its signature Switch console to Vietnam and away from China,



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

according to the Financial Times. That accelerates an existing plan, though the risk of the imposition of tariffs – which are currently on hold has increased the urgency.

The move from Nintendo comes as sales of videogame consoles in the U.S. have also been in decline. Seaborne shipments fell 14.3% year over year which follows a 29.6% year over year drop in the prior three months for all transportation modes. That's in large part down to a lack of new console systems, though over the longer term the importance of hardware is of decreasing importance to the videogame firms.

Switching manufacturing from China to Vietnam is a far from easy process. So far there are no significant manufacturing bases outside China – which accounted for 97.3% of all videogame console shipments in the 12 months to May 31 – and building the requisite supply chains even for assembly-only operations is an extensive process.

Sony, Cardinal Health Potential Beneficiaries Of Mexican Tariff Strategy

Retailers and other companies are using the “first-sale” rule, a legal loophole introduced in 1988, to reduce the burden from U.S. tariffs on Chinese exports. That involves shipping first to Mexico and then onward to the U.S.

This works particularly well for companies that ship a high volume of low per-piece value items and may include breaking consignments down or applying minor transformations. Industries and companies that are using the first-sale rule can be seen where their imports from China and exports to the U.S. for a given tariff-line are at similar levels.

The analysis identifies that toys, footwear, and fabrics are categories that show evidence of this behavior. Within those products shipment data for companies including Jabil, Sony, and Veritiv show the transshipping profile.

Looking more broadly Cardinal Health, Contec, and Flextronics all show similar shipping patterns in their respective industries which range from plastics to electrical engineering. This report was created using the S&P Global Xpressfeed toolkit – detailed SQL code is provided to show how to replicate the analysis.

Tesla Exports, Hyundai EV Imports Surge, But U.S. Auto Sales Slip

U.S. car and light truck sales fell 1.9% year over year in June, with foreign-made vehicles sliding 7.4%. Imports of vehicles however suggest a degree of optimism from Asian manufacturers with imports from Japan up 2.7% year over year in 2Q, while those from South Korea surged 26.7% year over year. The latter included a 55.0% year over year jump in shipments by General Motors and 25.0% for Kia in the month of June.

The ongoing section 232 tariff review of the industry will cast a pall over supply chains in November and is designed in part to protect the build-up of the U.S. electric vehicle industry.

At the moment the EV industry remains strong with U.S. exports of electric vehicles rising 38.8% year over year in May, led mostly by the roll-out of Tesla's Model 3 into Europe. Imports have only been equivalent to one-third of exports so far but jumped 110% in May after the introduction of imports from South Korea including Hyundai's Kona.

