

TRADE NEWS WEEKLY

September 2–6, 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.

August Shows a Marked Acceleration in U.S.-China Trade War Pace

Panjiva data showed evidence of an acceleration in the pace of the U.S.-China Trade War. Evidence also shows a switch in sourcing to Vietnam and away from China, though the retail sector has yet to make major changes. Elsewhere, our analyses also identified potential victims from an emerging U.S.-EU trade conflict, Toyota's development ahead of U.S. automotive duties and the relative performance of the major freight forwarders.

U.S. Trade Activity Down in July

U.S. international trade activity fell 0.2% year over year in July, analysis of official data shows. That marks the second monthly decline in activity with exports of goods falling 1.3% year over year and imports down 1.1%. The latter was linked to increasing tariffs on Chinese exports. The resulting trade-in-goods deficit of \$73.7 billion was, therefore, down from \$74.1 billion.

Yet, that was offset by a drop in the services trade surplus to \$19.7 billion from \$21.7 billion a year earlier after export growth of just 0.7% was offset by a 5.2% rise in imports.

In aggregate, the resulting trade deficit of \$53.9 billion compares to \$52.4 billion a year earlier

and was the largest for the month of July since 2008.

The slowing services export growth rate was partly down to a contraction in insurance, intellectual property (including media), travel and transport. The latter fell by 0.4% and 2.0%, respectively, continuing an eight month trend that may be linked to the deteriorating relations between the U.S. and China.

Target Says No To Accepting Any Tariff Related Price Increase

Target's Chief Merchandising Office, Mark Tritton, has reportedly told the retailer's suppliers that the firm "will not accept any cost increases related to tariffs" on Chinese exports and that the suppliers should "develop appropriate contingency plans."

That's a particularly hawkish stance, though at the macro-economic level Chinese export price deflation in July was equivalent to 28.6% of the rise in U.S. import duties suggesting Chinese exporters are willing to make some sacrifices.

Chinese supplies accounted for 93.8% of U.S. seaborne imports associated with Target in the 12 months to July 31. A 28.1% year over year increase in shipments from the rest of the world in July and 37.9% drop in imports from China would suggest a realignment may be beginning.



H A W A I I
FOREIGN-TRADE ZONE
NO. 9

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

TARGET MAY HAVE STARTED CUTTING BACK IMPORTS FROM CHINA

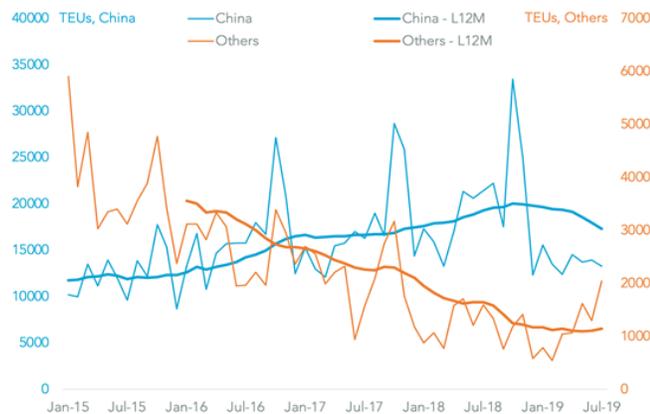


Chart segments U.S. seaborne imports associated with Target by origin on a monthly and 12-month average basis. Source: Panjiva

PICTURE DIMS FOR LG AND SONY

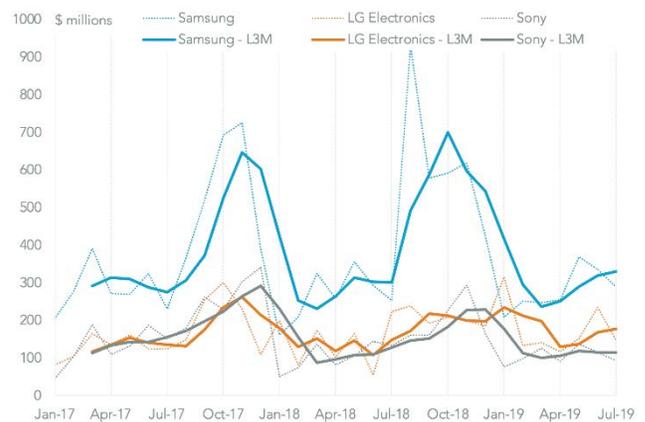


Chart segments Mexican exports of televisions by shipper on a monthly and three-month average basis. Source: Panjiva

Best Buy Ready to Tackle Tariffs

The implementation of so-called List 4A tariffs on U.S. imports from China from September 1 has captured a large range of consumer electronics including televisions. Retailer Best Buy's CEO, Corie Barry, has stated the firm has increased inventories, made pricing strategy decisions and reviewed sourcing.

Barry has also noted that it is "hard to predict how much consumers will react to higher prices," limiting visibility on the overall financial impact of the duties. U.S. seaborne data shows 82.4% of shipments associated with Best Buy came from China in the 12 months to July 31. A 19.9% year over year increase in shipments in July underscore's Barry's comments on inventory build-up.

Yet, COO Michael Moran has noted that the bulk of Best Buy's televisions are sourced from Mexico. Total Mexican exports of televisions to the U.S. by all suppliers to all buyers have actually fallen in July with a 10.2% year over year decline. Shipments associated with both LG Electronics and Sony have dropped, suggesting Mexico has yet to see a migration of manufacturing of TVs from China.

U.S. Secretary Pompeo Has a Chance to Reboot U.S.-EU Relations

U.S. Secretary of State, Mike Pompeo, is visiting Europe this week, including a meeting with the incoming EU Commission. That may provide a chance to reboot relations between the two countries which have seen an increasing likelihood of a trade war centered on the autos and aerospace industry in recent months.

Speaker Pelosi Voices Trade Deal Concerns to Canada, Progress Slow

U.S. House of Representatives Speaker, Nancy Pelosi, has told Canadian Prime Minister, Justin Trudeau, that House Democrats have concerns with the U.S.-Mexico-Canada Agreement's "labor standards, prescription drug prices, environmental protections and concrete enforcement mechanisms."

Support from House Democrats is needed for USMCA's passage in the U.S. While negotiations are ongoing with the Trump administration, there's a good chance politics prior to the U.S. elections will get in the way. Furthermore, Canada is scheduled to hold



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

elections in October that could further disrupt the ratification of USMCA.

Lego Has a Built-in Advantage as U.S. Supply Chain Avoids China

Lego A/S plans to add 40% to its store count globally, as well as develop new gaming and e-commerce routes to market in order to tackle slow growth. Sales in North America may be struggling. Data for U.S. imports associated with the firm fell 15.8% year over year in 2Q in volume terms.

There are already signs of recovery though, with imports in July up by 21.2% year over year due to a 46.2% surge in shipments from Europe. The firm may be at a sustained cost advantage versus its peers including Hasbro and Mattel given China only represents 0.5% of imports. That should mean Lego should avoid tariffs in the 2020 shopping season that will be imposed from December 15.

LEGO BLOCKS TARIFF RISKS WITH MINIMAL EXPOSURE TO CHINA

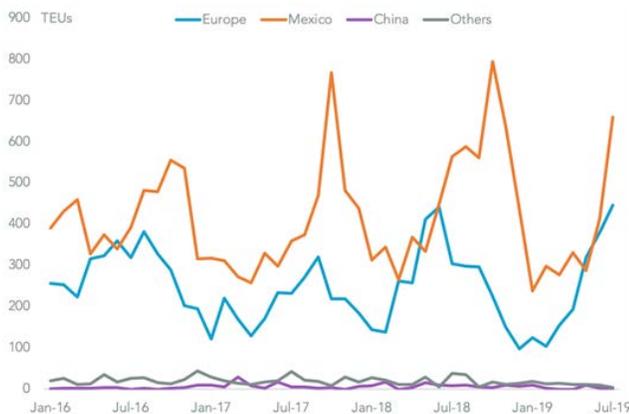


Chart segments U.S. imports by sea from all origins and by land from Mexico associated with Lego A/S by origin.

Source: Panjiva

Uniqlo Needing Fast Fix for Chinese Apparel Exposure

Fast Retailing's Uniqlo brand will reportedly shift the supplier base for its U.S. stores toward southeast Asia and away from China in

response to U.S. duties. The latter already applies to \$38.7 billion of annual imports of apparel, footwear and textiles from China by all U.S. importers as of September 1.

Uniqlo has been growing rapidly with U.S. seaborne imports associated with the firm having jumped by 26.6% year over year in 2018. There's been renewed growth of 8.2% in July and 29.5% in August as the firm builds up inventories, likely ahead of the new tariffs. The need for action is apparent – China represented 58.6% of shipments linked to Uniqlo in 2018.

Chinese Chips, Not Japanese Sanctions to Blame for South Korea's Woes

South Korea's international trade activity fell for a fourth straight month in August with a 9.3% year over year decline. A 13.6% drop in exports was the main reason for the drop. The export slide was actually flattered by a resurgent shipping business, without which exports would have fallen by 16.1%.

The trade spat with Japan made little difference, with the main cause of the lower exports being a 21.3% slump in shipments to China. The electronics industry has been the main cause of South Korea's export woes – semiconductor shipments fell 30.7% while exports of mobile phones, computers and televisions all dropped.

Ground Being Prepared for Next Round of U.S. Agricultural Trade Conflicts

The U.S. International Trade Commission received nine requests for trade violation investigations in August, though none were for antidumping cases for the first time since January. The U.S. Trade Representative has also requested a review of restrictions by other countries on U.S. exports of agricultural products.

It is concerned about rules on minimal residual levels of fertilizers and pesticides (MRL) with an initial review due by April 2020. The MRL investigation, and resulting tariffs or other actions, may be a tool for the Trump administration's trade negotiations with the EU, Japan, China and other countries.

Yet, U.S. exports of fruit, vegetables, cereals and beans appear healthy recently. Exports to the EU climbed 10.8% and those from Japan grew by 10.3% year over year in the 12 months to June 30. The USTR may instead target other southeast Asian countries whose imports from the U.S. fell 1.9% over the same period.

China Extends Free Trade Zones Pilot Program

China will establish new pilot *Free Trade Zones* in six provinces across the country, extending strategic trials to border regions to help improve trade ties with neighboring countries and expand the reach of the Belt and Road Initiative.

Source: *World Free Zones Organization*

Raizen, Valero May Find Ethanol Growth in India

The Indian government may incentivize ethanol production in order to cut the country's reliance on foreign oil rather than just for environmental reasons. Import duties may also be applied if the incentives encourage increased imports, which already rose 4.7% year over year in the 12 months to May 31 to reach \$517 million.

The U.S. has been the major supplier to India. U.S. exporters including Raizen and Valero could benefit from increased exports to India after shipments to Brazil slumped 25.4% year over year in the 12 months to June 30. The latter could yet recover, however, following revised Brazilian import quotas.

BREXIT - October 31 Horror Most Likely Avoided

The prospect of a "no deal" Brexit on October 31 has likely been delayed. The British Parliament

voted to require the government to request an extension to negotiations from the EU in the event that a revised Withdrawal Agreement cannot be passed.

While leaving political uncertainties - for example, a general election and change of government is still possible - the delay should reduce the near-term risks for supply chains. In the immediate term, that may trim U.K. imports from the EU, but in the longer term, British supply chains may still evolve away from EU suppliers.

U.S.-India Trade Deal Imminent

The U.S. and Indian governments may unveil a partial trade deal at the UN General Assembly scheduled for late September. At a minimum, India may look to regain access to the Generalized System of Preferences in return for improved U.S. access to its markets.

If both sides want to avoid regulatory complications, such a deal would need to be complete enough to avoid issues with WTO rules while also not being so broad as to require Congressional approval in the U.S. The ongoing Japanese trade deal may provide a template for doing so, assuming it is signed at the UNGA.

90 Day Mexican Migration Assessment Due

The U.S. State Department is scheduled to report to President Trump in the next few days whether the Mexican government has made sufficient efforts to curb northbound migration. As discussed in Panjiva's analysis of June 8, President Trump had previously threatened to apply tariffs on Mexican exports if the government didn't control migration. The topic has not been mentioned since but is still a risk for regional supply chains.

