TRADE NEWS WEEKLY

September 7–September 11, 2020

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.

PC Surge Boosts China Trade; Phase 1 Purchases Still Failing to Make a Difference

Asian trade activity has steadily improved in the past two months in the wake of COVID-19 disruptions. Exports from 15 tracked countries fell by just 2.3% year over year in July after a 6.2% slide in June.

That's been led by a surge in exports from China, which have also opened the body of evidence for August with a 9.5% rise after improving by 7.2% in July. The improved momentum has been due to a return to growth in exports of apparel and increased growth rates for furniture and computers. The latter climbed 41.7% year over year in August on the back of increased work-from-home demand.

The fly in the ointment is China's import performance. Total imports to China fell by 2.1%, including imports from the U.S. which rose by just 1.8% in August compared to a 3.6% increase in July. That bodes ill for delivery of China's Phase 1 trade deal commitments given the products covered represented 60.9% of China's purchases from the U.S. in 2017, the baseline year for the deal. A surge in exports to the U.S. may suggest the weight of tariffs is lifting.

China, U.S. Set Out Competing Semiconductor Plans as Chip Needs Surge

The Chinese government is reportedly set to release a wide range of support measures for the semiconductor industry as part of the 14th five-year plan set to be launched by the Xi administration in October. That comes as the U.S. is attempting to limit China's access to high-tech products with the Trump administration outlining tax-based measures to increase manufacturing of semiconductors and other high-tech equipment in the U.S.

Exports of semiconductors from the U.S. to China jumped 14.4% year over year in Q2 and by a further 29.2% in July, possibly reflecting stockpiling by Chinese buyers ahead of further anticipated restrictions from the U.S. government. Exports from China have proven resilient despite the COVID-19 pandemic due to strong downstream electronics demand with exports up by 15.9% year over year in July.

When added to rising exports from Japan, South Korea and Taiwan – including reported stockpiling by Huawei ahead of a U.S. ban on purchases – the total semiconductor exports of the five countries increased by 14.6% in July to reach the highest for a single month since at least 2016.

Xinjiang Measures May Extend to Cotton

The U.S. government may soon introduce a ban on imports of products made from cotton sourced in the Xinjiang province of China. That would represent the third wave of bans/ sanctions on products from the region in connection to U.S. concerns about the treatment of the Uigher people. The move would be notable in extending beyond the technology sector.

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Enforcement and coping with the rules could prove difficult to enforce given the potentially wide and deep scope of coverage. In its simplest form, the rules could be based on a Withhold Release Order by CBP which would identify specific firms.

A more complex version would cover all derived products, the biggest challenge will be to identify whether a given apparel or textile import is drawn from fabric or thread which, in turn, has Xinjiang-originated cotton. When compared to electronics, many apparel and textile supply chains are not transparent enough to provide such details. At a minimum, imports of apparel from China are likely to come under scrutiny.

Made in India Takes A New Form

The Indian government may offer incentives for manufacturers shifting from China worth $23 billion covering autos, healthcare, household appliances, renewables, steel and textiles. The move wouldn't be a surprise given the widening spread of such measures, most recently including Japan's measures. It is notable that the measures will be subsidies based on domestic production rather than tariffs to prevent imports. Either way, this is both consistent with India's prior trade policies and likely to generate WTO complaints.

Biden's "Made in America" Plans Has Similarities to Trump's

The campaign of former Vice President Biden has outlined a "Made in All of America" manufacturing support strategy that will use a mixture of: tighter federal procurement rules; tax-based measures including clawback of tax credits for manufacturers moving overseas; and includes a punitive carbon border-adjustment fee. The plans also include promise to onshore supply chains in "critical" industries including medical supplies and semiconductors.

The package is aimed at a similar outcome to, and uses some measures in common with, the Trump administration's stated plans for reshoring critical industries. Also, like Trump's, the Biden plans include tough-on-China provisions though differentiate with a call for international coalition building.

Brexit - Ford, BMW Have a Stake in Quick-and-Dirty CPTPP Deal

The U.K. has started negotiations to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade group which includes Japan, Canada, Mexico, Australia and seven other countries.

Membership could boost the U.K.'s post-Brexit free trade relations and would cover 8.2% of U.K. exports in the 12 months to June 30. Yet, the U.K. would be a rule-taker and may forego better terms if it pursued bilateral deals. Joining would also complicate existing trade negotiations with Japan and would be complicated by Mexico and Canada's membership of USMCA given the U.K.'s intent to sign a trade deal with the U.S.

British exports to Mexico have lagged the rest of the CPTPP group with an 11.8% year over year decline in the 12 months to June 30 versus an increase of 4.3% for the group. That has been due to a slide in shipments of cars, pharmaceuticals, beverages and power generation equipment.

The drop in car exports includes a slide in shipment for luxury brands including BMW and Jaguar Land Rover of 38.3% and 39.8% year over year, respectively, in the 12 months to July 31. Shipments by mass-market producer Ford actually increased by 28.5% over the same period.

Brexit - Three Deals, Three Problems as Economic Brexit Approaches

The U.K.'s future trading relations with the EU, Japan and the U.S. will depend critically on negotiations being held from September 8. EU-U.K. talks look set to fail to deliver a deal in time for the informal mid-October deadline with the British stating they "are not going to accept level playing field provisions that lock us into the way the EU do things."

New legislation may be published by the British government this week that could further undermine negotiations while Prime Minister Johnson has indicated talks could be abandoned altogether if a conclusion isn't reached by mid-October. Should talks fail, there'll likely be a new round of import stockpiling at the same time as the traditional British peak season for imports in October and November, potentially causing significant logistics challenges.

Japan and the U.K. may be able to sign a trade agreement by end-September to replicate the EU-Japan EPA deal which took effect in February 2019. While helping British farmers it may hurt the autos industry in the U.K. Honda, for example, may move production of the Civic back to Japan to diversify the performance in its home market. Honda's total exports from Japan fell by 43.1% year over year in the 12 months to July 31.

A fourth round of U.S.-U.K. negotiations toward a trade deal will include market access proposals for the first time. From a timing perspective, it seems unlikely that a deal can be signed before the U.S. elections in November.

Digital services taxes will be a sticking point with the Trump administration indicating it may apply retaliatory tariffs against Britain's new DST. The British autos industry is a potential target and has suffered declining exports to the U.S. Shipments linked to Honda and BMW down by 74.2% and 38.3% year over year, respectively, in July and August combined.

BRITISH CAR SHIPMENTS ROLLING AGAIN, STILL WELL BELOW PRE-PANDEMIC LEVEL

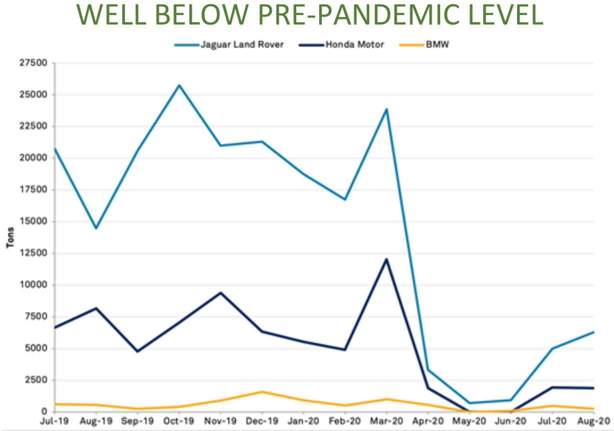

Chart segments U.S. seaborne imports of cars from the U.K. by shipper. Source: Panjiva

Record Container Shipping in August as Consumer Surge Continues

U.S. seaborne imports hit a record high in August after containerized freight shipments rose by 5.9% year over year, breaking through 2.7 million TEUs for the first time. That was largely due to a 14.3% surge in shipments from China while imports from Asia excluding China increased by a more modest 4.0%.

Much of the recovery has been driven by consumer goods in the wake of COVID-19 with discretionary product imports up by 16.1% and staples rising by 34.9% on stronger food and personal care shipments.

Industrial demand is also improving with imports up by 4.4%. That represented a balance between an 82.7% surge in shipments of agricultural machinery by Deere and Kubota among others and an 8.2% slip in construction machinery. A similar pattern can be seen in supplies with electrical components up by 9.6% and building products down by 2.9%.

CONSUMER STAPLES, DISCRETIONARY LEAD RECOVERY IN IMPORTS

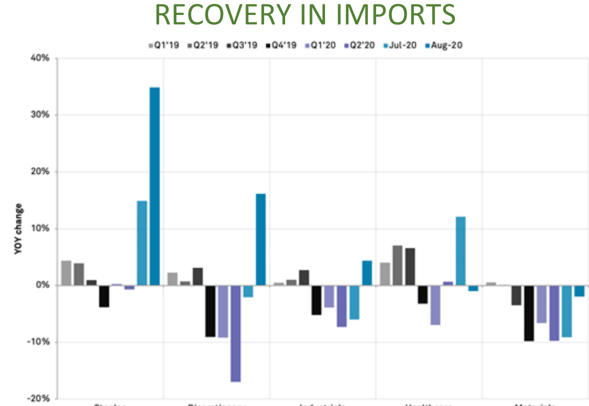

Chart segments U.S. seaborne imports by industry. Source: Panjiva

Container Rates Looking More Like Rocket Fuel Than Bunker Fuel

On the topic of shipping rates, the dizzying surge in global container rates continued last week with an 11.3% jump in rates assessed by our colleagues at S&P Global Platts and a 1.9% rise in China-outbound rates measured by the SSE. The latter included a 2.9% increase in rates for shipping from China to Los Angeles. The latter will further exacerbate the rising costs for shippers as indicated in the research above.

The surge is likely to have been entirely demand related - including a surge ahead of the forthcoming Golden Week holiday in Asia in October given fuel prices fell by 4.4% last week. The container-lines are responding to the higher rates with Hapag-Lloyd being the latest to add Transpacific capacity through additional sailings.

Ericsson, Samsung May Have Trade Policy Edge Over Nokia in 5G

Samsung Electronics has beaten Nokia to sign a 6.6 billion 5G telecoms network contract with Verizon. Aside from cost and performance, there are trade policy aspects to 5G contracts to consider given the escalating technology conflict between the U.S. and China.

Trump administration policy has already had a significant impact on telecoms network supply chains. Imports of base stations from China fell to just $91 million in the 12 months to July 31 from $241 million in 2018. Imports from countries outside traditional suppliers of China, Mexico and Europe tripled over the same period to $318 million.

Nokia's sourcing from China may prove to be a challenge, with 84.8% of U.S. seaborne imports linked to the firm coming from China in the 12 months to July 31. For Samsung Electronics and Ericsson, the ratio is much lower. In Ericsson's case it was just 10.8% with a further 52.7% coming from Mexico.

GM, Volvo Buck Falling Foreign Vehicle Import Trend with China Shipments

U.S. auto sales continued to recover in August after the near shut-down of the industry during the COVID-19 lock-down of retail and industrial activity. Sales rose by 7.2% sequentially in August versus July, led by a 9.7% surge in domestic light trucks. Foreign-made vehicles only saw an increase of 1.9%.

Yet, the industry is a long way from pre-pandemic levels. Sales of foreign-made vehicles were down by 19.5% year over year in August which was worse than the 7.2% dip seen in July due to weak light truck sales.

Few automakers appear to expect a turnaround, with U.S. imports of cars and light trucks down by 14.2% year over year in July due to a 24.0% drop in each of Japan and South Korea. Imports from China, led by GM's Buick range and Volvo's S90, were the outlier with a record high for imports in July after a doubling to 40,000 vehicles shipped.

Thai Union Lines Up Red Lobster to Net a Wider Downstream Supply Chain

Canned fish maker Thai Union is increasing its stake in U.S. restaurant chain Red Lobster, potentially to more closely control and diversify its downstream supply chain. That comes as Thai Union's retail-focused business has likely been doing better recently.

U.S. imports of canned seafood have surged recently with a 15.5% year over year surge in shipments in July with a further 26.9% rise in shipments in August, likely due to retailers restocking after the pandemic.

Thai Union's U.S. seaborne imports shipments under the "Chicken of the Sea" brand likely jumped 67.4% higher in August while shipments linked to Starkist-owner Dongwon Enterprises rose by 86.3%.