TRADE NEWS WEEKLY

October 12–October 16, 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.

Retail's Early Stocking Drives Surge in Electronics Imports

The U.S. National Retail Federation has stated that its members are "stocking up earlier than usual" on the back of expectations that shoppers will want to avoid crowds and shipping delays. U.S. seaborne imports of consumer discretionary products (excluding autos) accelerated to 23.2% year over year in September compared to an 18.5% improvement in August.

There's been a far from consistent performance among the sub-sectors with furnishings and home appliances up by 47.3% and 57.5%, respectively, while leisure products and textiles/apparel have barely moved.

The fastest acceleration was in consumer electronics where growth increased by nearly 10% points to 17.5% year over year. Importers and retailers including Best Buy, and suppliers such as Samsung Electronics, are already gearing up for what is expected to be an early pre-holiday rush.

September's Shipping Surge

U.S. trade activity continued to recover after COVID-19 related closures with U.S. seaborne imports having risen by 14.8% year over year in September. Containerized freight volumes climbed 11.1% higher after increasing by 6.0% a month earlier.

There's some signs of imports being pulled forward with containerized freight up 0.1% in September versus August, compared to a 4.9% drop on average in the prior 10 years. That may be due to expectations of an earlier start to holiday shopping or to concerns about a resurgence in the COVID-19 pandemic. Imports from China led the way with a 17.7% surge indicating a jump in traffic before the Golden Week holiday.

At the industrial level, the upturn has continued to be widespread. COVID-19 supplies led total imports of healthcare and consumer staples products to rise by 49.2% and 29.1%, respectively. Consumer discretionary products accelerated to a 21.6% increase from 16.4% in August, perhaps supporting the "earlier shopping" hypothesis. Industrial imports also improved with a 13.7% rise that included a capital goods recovery which may indicate improved business confidence. Energy was the only sector to decline, perhaps due to reduced gasoline demand and hurricane interruptions in the Gulf of Mexico.

COVID-19, CONSUMER SPENDING DRIVE IMPORT RECOVERY

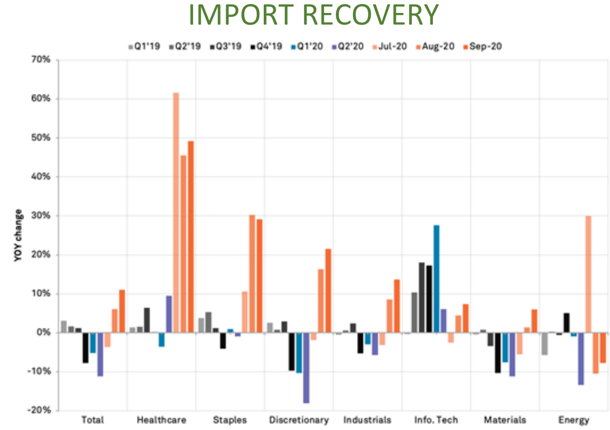

Chart segments U.S. seaborne imports by industry. Source: Panjiva

HAWAII 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

Matson Takes Advantage of Post-COVID Boom to Expand Services

Container-line Matson has stated preliminary Q3 figures show its container handling included a 125% year over year surge in its China service volumes. That was cited as being due to the addition of a new routing (CLX+) and is "now confident CLX+ service can be permanent."

The firm's China services have limited stops and so can offer an expedited service that may have proven particularly attractive as supply chains restock. The firm has also likely benefited from the post-COVID recovery in shipping volumes, though it remains to be seen whether the recent surge is a defense against future COVID-related lockdowns.

Tighter Restrictions for Solar Panel Supply Chains

The Trump administration has tightened the rules for imports of solar panels, removing a prior exemption for bifacial panels and raising next year's tariff rate, in response to an ITC report on the recent surge in imports.

The Section 201 "safeguarding" tariffs on imports of solar panels initially proved effective, though more recently, imports have increased as a consequence of tariff costs being passed onto consumers and as a result of a fixed timeframe for tax support for investments. The matter is a further illustration of the need to continually review tariff policies to address rapid adaptations in supply chains that may not lead to the intended consequences.

Cambodia-China Trade Deal Could Complicate U.S. Supply Chains

Cambodia and China have signed a trade liberalization deal that could "provide more robust economic partnerships" according to Cambodia's Commerce Minister, Pan Sorasak. That may allow Chinese firms to draw Cambodian manufacturing more closely into their global supply chains and provide tariff-optimized routes to other markets.

Cambodia's exports have been led by shipments to the EU and U.S. which accounted for 38.3% and 23.9% in 2018, respectively, focused on apparel and footwear. Cambodian exports to the U.S. have accelerated with a 40.7% jump in 2019 led by a 132% rise in shipments of luggage, a 19.5% rise in winter-wear, and a 365% jump in shipments of electrical lighting (mostly holiday decorations).

The increase in imports may draw a similar response from the Trump administration to that seen by Vietnam where a broad-ranging review of currency practices was recently launched. U.S. importers from Cambodia may, therefore, face further supply chain uncertainties and include Steve Madden and Samsonite in luggage, Walmart in holiday lights and Adidas in winter-wear.

China's Customs Administration Says Trade Boom Accelerates

According to the China General Customs Administration, China's export recovery gathered pace in September with total exports and imports having jumped by 13.4% year over year. That was led by a 13.2% rise in imports compared to a 2.1% dip a month earlier while export growth remained roughly unchanged at 9.9%.

On the export side, the largest contributors to the expansion in dollar terms were computers with growth of 45.3% while textiles and plastics improved by 95.9% and 34.7%, respectively. Notably, exports of medical supplies fell to their lowest since March and are now 30.3% below their June peak.

On the import side, shipments from the U.S. jumped 24.7% year over year to reach $13.2 billion, the highest since August 2018. That would suggest that China has continued to deliver on its Phase 1 trade commitments, at least in terms of shipments of energy and agricultural products. More details on shipments of manufactured products are needed before making an overall judgement. In any event, neither side appears focused on the success, or otherwise, of the deal's commitments.

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

Rules Tightened for Bifacial Solar Panels

The Trump administration has tightened rules for imports of bifacial solar panels following a surge in shipments in the past 12 months. The initial Section 201 "safeguarding" tariffs proved effective, but the application of exemptions for bifacial panels and a cut in tariff rates may have contributed to the growth.

U.S. imports of panels from China jumped 20-fold in the three months to August 31 versus a year earlier, while those from Thailand and Vietnam rose by 181% and 23.3%, respectively. The emergence of Thailand as a major supplier follows a similar trend from Vietnam in 2019 and raises the risk that Thailand may become subject to a more general trade review by the Trump administration as has recently been the case for Vietnam.

The increase in imports from Thailand has been driven in large part by U.S. seaborne imports linked to Jiangsu Zhongli's Talesun which rose by 197% year over year in Q3. Imports linked to Trina Solar are still the most significant with a 42.3% share despite a 6.3% drop in Q3.

JIANGSU ZHONGLI LEADS LATEST THAI SOLAR FLARE-UP

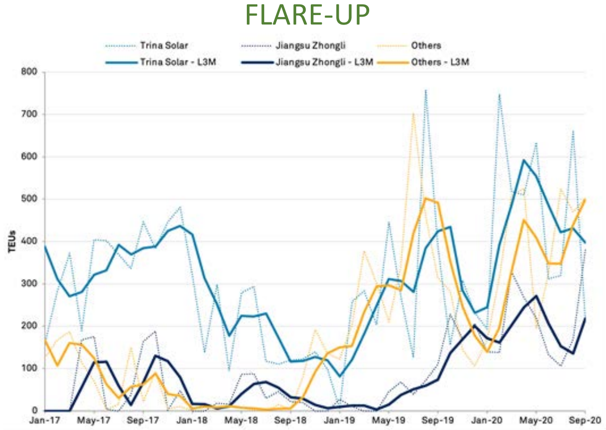

Chart segments U.S. seaborne imports of solar panels by shipper on a monthly and three-month average basis. Source: Panjiva

Japan Set to Step Up "Make in ASEAN" Support

Japan's government will cover up to half of investment costs required in ASEAN countries to set up manufacturing facilities that reduce supply chains' reliance on China. While full details are only due later this month, it will likely involve a significant increase in funding from two current programs that promote manufacturing in Japan. The plans may face regulatory and political hurdles both at the WTO and in terms of China's position in the RCEP trade deal which is due to be finalized later this year.

A competitive round of onshoring policies is likely to accelerate in the coming months as governments seek both to boost employment and improve supply chain resilience in the wake of COVID-19.

More Than Mini, Less Than Maxi for U.S.-Brazil Deal

The U.S. and Brazilian governments may sign a limited trade deal by the end of October, including the regulatory and trade facilitation elements flagged in April 2020. It won't be a full trade deal including tariff reductions and services in order to avoid tripping over WTO restrictions and the need for Congressional approval. The use of a limited trade agreement has become a hallmark of the Trump administration's deal-making style, shown by the mini-deal with Japan and recent pico-deal with the EU. It's unlikely that a more widespread deal will be achieved before the end of the year.

Maersk Joins the Optimists with Upgrade

Maersk has upgraded its earnings outlook for 2020 by 19.2% at the midpoint for EBITDA after ocean freight volumes "declined by 3% in Q3 2020 compared to previous year, which is slightly better than the anticipated mid-single digit contraction."

The recovery in volumes in late Q3 is a likely driver of the upgrade with expectations of further growth having led the firm to increase its available capacity by cutting blank sailings for the start of Q4.

BREXIT - Positions Known, Clock Ticking

Prime Minister Johnson held bilateral talks with President Macron and Chancellor Merkel over the weekend to affirm negotiating positions regarding long term trade and customs arrangements. Johnson stated that "the UK was prepared to end the transition period on Australia-style terms if an agreement could not be found."

That's consistent with prior positioning which confirms that a breakthrough is needed by heads of state meetings on October 15 if a deal is to be put in place in time for the end of the year. There are indications that details could be formulated by the end of October and still ensure passage through the various parliaments and institutions needed for a January 1 start to new arrangements. Absent such an agreement, there's likely to be significant disruptions to supply chains through year end with stockpiling, and from the new year in terms of regular goods flows.

Aerospace Tariffs Given Clearance for Takeoff

The European Union has been given official clearance by the WTO to apply retaliatory tariffs against U.S. subsidies provided to Boeing. EU Trade Commissioner, Valdis Dombrovskis, has already indicated that the EU will use the permission to apply duties if the U.S. does not remove its similar tariffs against EU subsidies for Airbus. The topic is one of several areas of potential flashpoints for worsening U.S.-E.U. trade relations.

DST Delay Could Prove Problematic for U.S.-EU Relations

The OECD may not complete negotiations to formulate a global standard for digital services taxes by mid-2021 rather than the end of 2020. More details should emerge later this week according to press reports.

The matter of DSTs is a key potential flashpoint in relations between the U.S. and EU, particularly under a second Trump administration. The U.S. has held Section 301 duties on imports from France relating to digital taxes in abeyance until the start of 2021 making the OECD resolution timing critical for ongoing relations.

5G Rollout Has Yet to Accelerate as Equipment Imports Languish

Apple's iPhone 12 features 5G capabilities and will rely on the rollout of new networks. The latter process has been complicated in the U.S. by a ban on imports of telecoms equipment linked to Huawei, which the forthcoming U.S. general elections are unlikely to change.

U.S. imports of telecoms network equipment including mobile base stations and wideband gear were down by 10.4% year over year in the three months to August 31 including a 27.0% drop in Chinese equipment.

The decline in total imports was led by U.S. seaborne imports linked to Flex and Samsung Electronics with declines of 94.1% and 68.0%, respectively, in Q3. Ericsson and Nokia, meanwhile, are making up ground with improvements of 45.7% and 471%, respectively, over the same period.

Panama Canal Misses Out on Asia-U.S. Trade Recovery

The Panama Canal has seen a continued downturn in traffic in the wake of COVID-19 disruptions to global shipping. Total transits fell by 16.5% year over year in September despite a marked surge in global trade volumes. While the Canal offers a faster route to the U.S. east coast from Asia in normal times, container lines may not be utilizing the opportunity yet.

U.S. seaborne imports from eight Asian countries to west coast ports climbed 21.3% year over year in September while those to the east coast only rose by 6.5%. Congestion at Californian ports may work to the Panama Canal's advantage.