



29 April 2025

Economic Letter from Asia: How Freightening?

HAVER ANALYTICS

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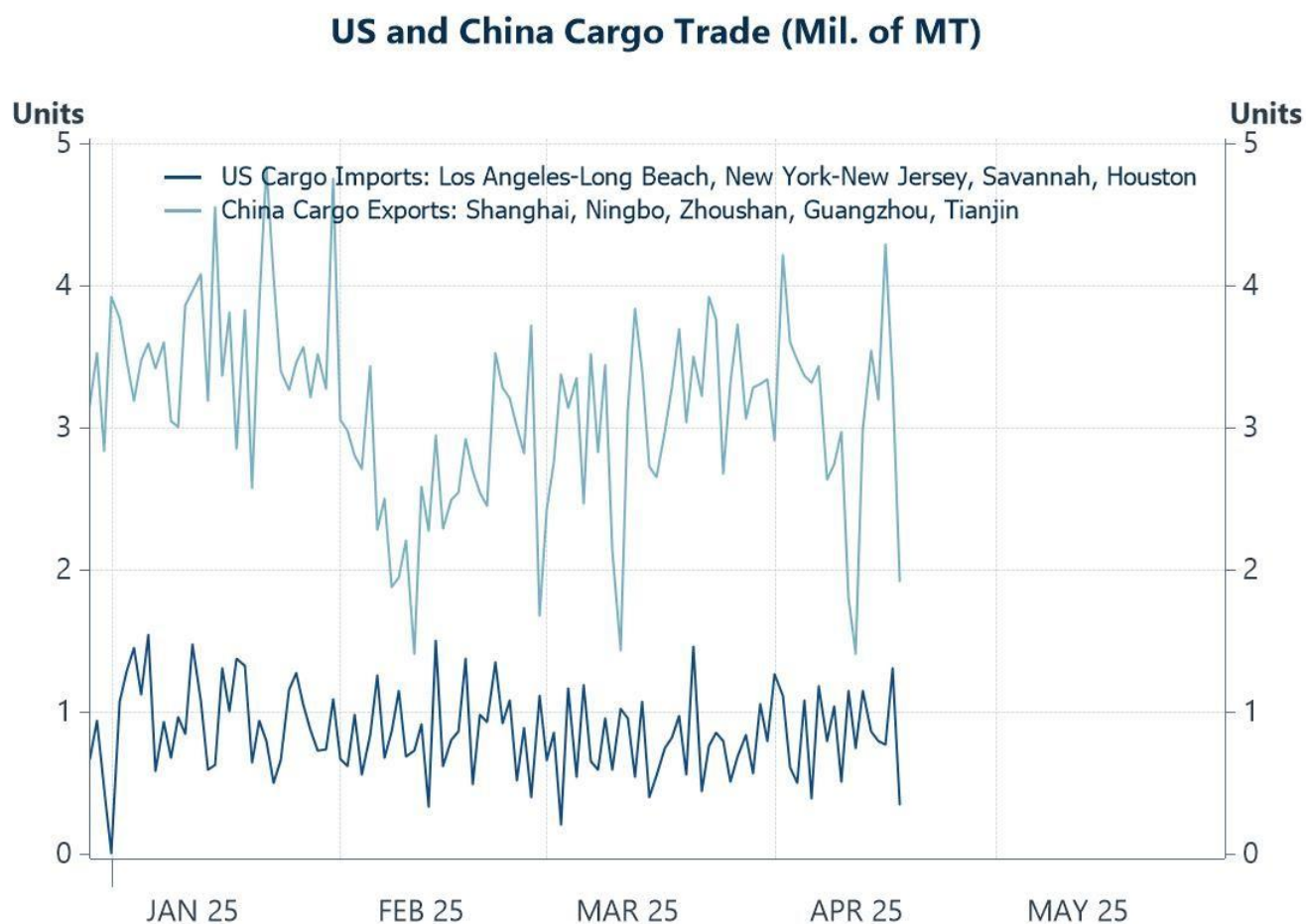
This week, we focus on the immediate impacts of the recent US-China trade escalation. As we discuss below these are already being exhibited in the data. While still within historical ranges, high-frequency estimates of US and China cargo trade volumes have begun to deteriorate (chart 1). In tandem with these volume declines, freight rates on certain Shanghai-to-US routes have fallen (chart 2), suggesting reduced shipping demand. This has been further corroborated by widespread reports of large-scale shipment cancellations from China to the US. A potentially clearer signal comes from South Korea's trade data for the first 20 days of the month, often viewed as a bellwether for global trade. The figures point to a notable slump compared with a year ago (chart 3). More complete April data are expected later this week.

Turning to broader developments in China, we observe that the dominant shifts in the country's financial balances over the past decade have occurred between the general government and the private sector. In contrast, China's foreign sector balance—essentially its current account—has remained relatively stable (chart 4). As we further discuss financial balances and the underlying causes of the US' persistent current account deficit (chart 5) have been a recurring topic in recent conversations with clients in Asia. It is argued that the US dollar's role as a global reserve currency effectively necessitates the US running a current account deficit. Consequently, attempts to narrow the deficit through tariffs may address symptoms rather than root causes. Finally, we revisit the China Plus One strategy adopted by firms since the initial US-China trade fallout in 2018. This approach has contributed to ballooning trade deficits between the US and some of its other major trading partners (chart 6), prompting renewed scrutiny under President Trump's early "Liberation Day" trade actions.

US and China cargo trade

Financial markets have recently found some reason for relief, as both the US and China appear to be lowering the temperature on further trade tariff actions. Recent messaging has leaned more toward a de-escalation of trade tensions, though concrete details remain sparse, and it is unclear how or when formal negotiations might begin. That said, the substantial and mutually imposed tariffs between the US and China remain firmly in place, and a significant rollback does not seem likely in the near term. In the meantime the economic impact of these tariffs is beginning to surface in the data, as shown in charts 1 to 3. Chart 1, based on IMF estimates, shows a sharp decline in daily activity at several key ports involved in US-China trade. However, while the drop is notable, port activity still remains within historical ranges, so a more fundamental shift is not yet evident.

Chart 1: US and China cargo trade volumes

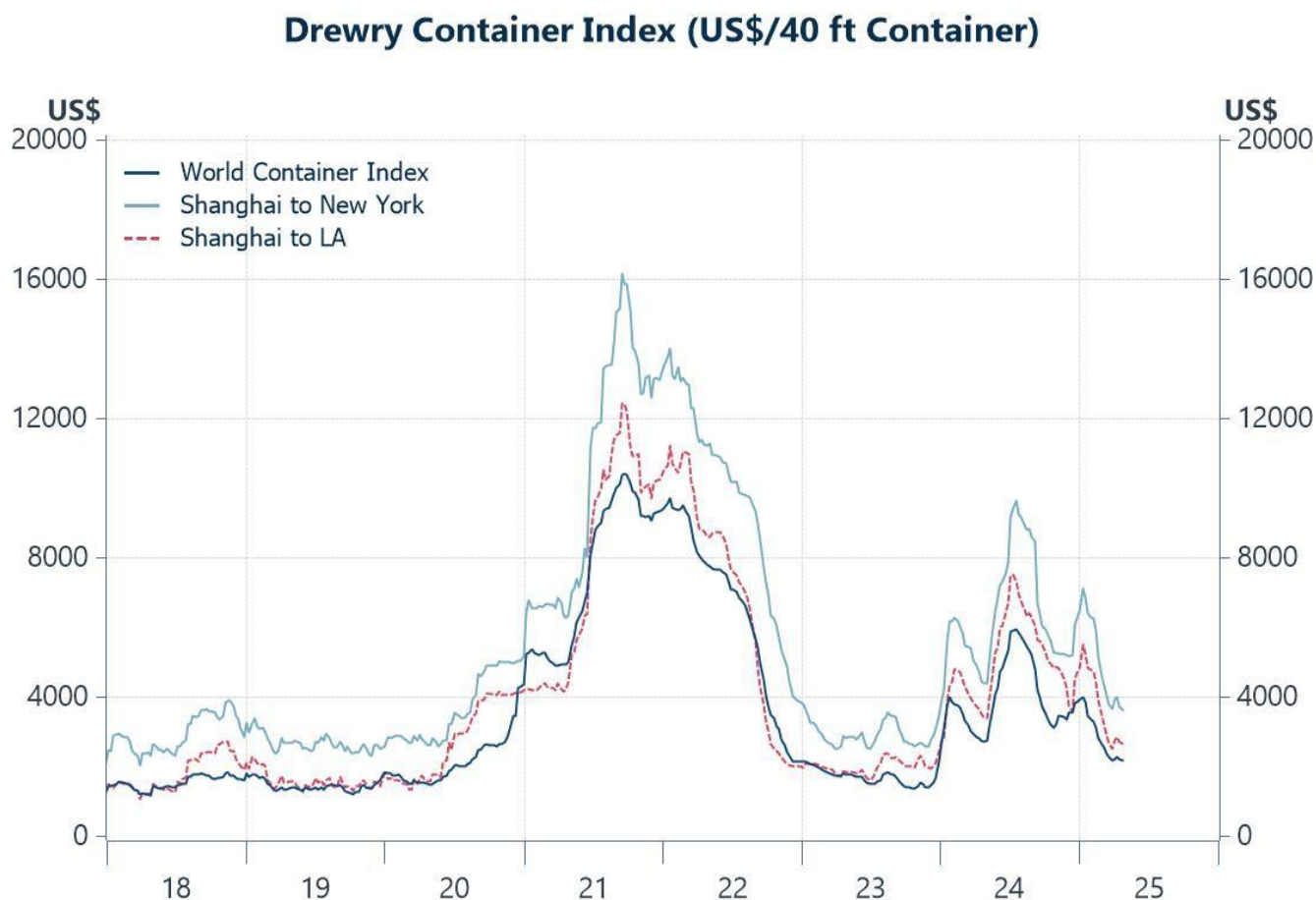


Source: International Monetary Fund/Haver Analytics

US-China freight rates

Another indication of the impact of escalating US-China tensions is seen in global freight rates, as shown in chart 2. Freight costs on routes from Shanghai to New York and Los Angeles have dropped sharply—even before the most recent round of trade escalations—likely due to growing caution among shippers about what trade actions might come next for China. This decline contrasts with the year-end spike in shipping rates in 2024, which likely reflected front-loading of shipments in anticipation of potential US tariffs. Looking ahead, the outlook remains uncertain and potentially discouraging, especially following recent reports of widespread shipment cancellations from China to the US. These developments suggest that China-to-US shipping volumes may remain subdued or decline further over the near-term.

Chart 2: Drewry container index



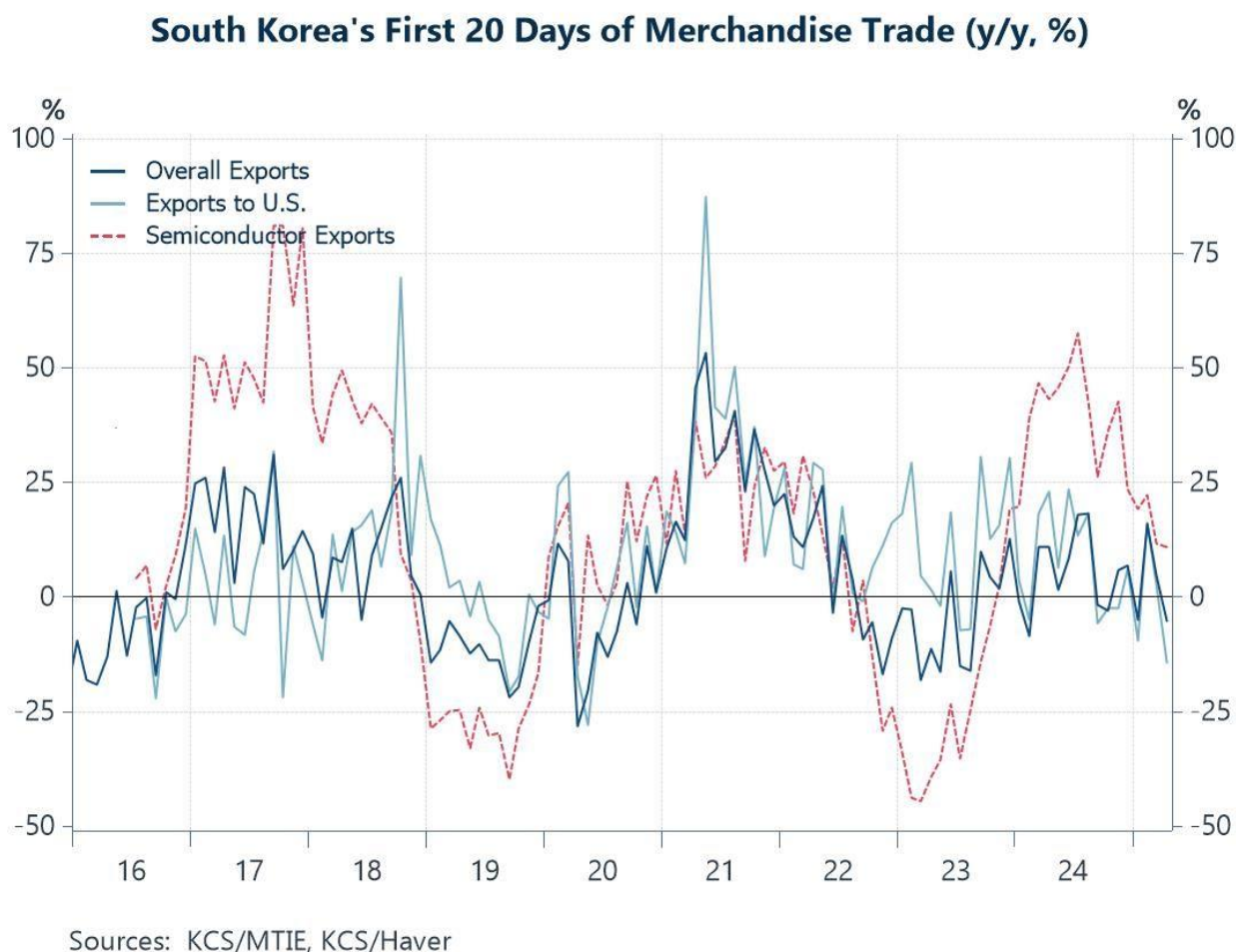
Source: Drewry Shipping Consultants, Ltd/Haver Analytics

Trade indications from South Korea

A perhaps firmer indication comes from South Korea's trade figures for the first 20 days of April, widely regarded as an early signal of global trade trends. The data showed a notable slump compared to the same period last year, driven largely by a sharp drop in shipments to the United States. This move has made US-

China trade increasingly difficult, aside from a few exemptions on key goods such as electronics and semiconductors. Even so, South Korea's semiconductor export growth continued to slow in April, highlighting the broader fallout from ongoing trade tensions. More definitive trade data from South Korea are expected later this week.

Chart 3: South Korea first 20 days of merchandise trade

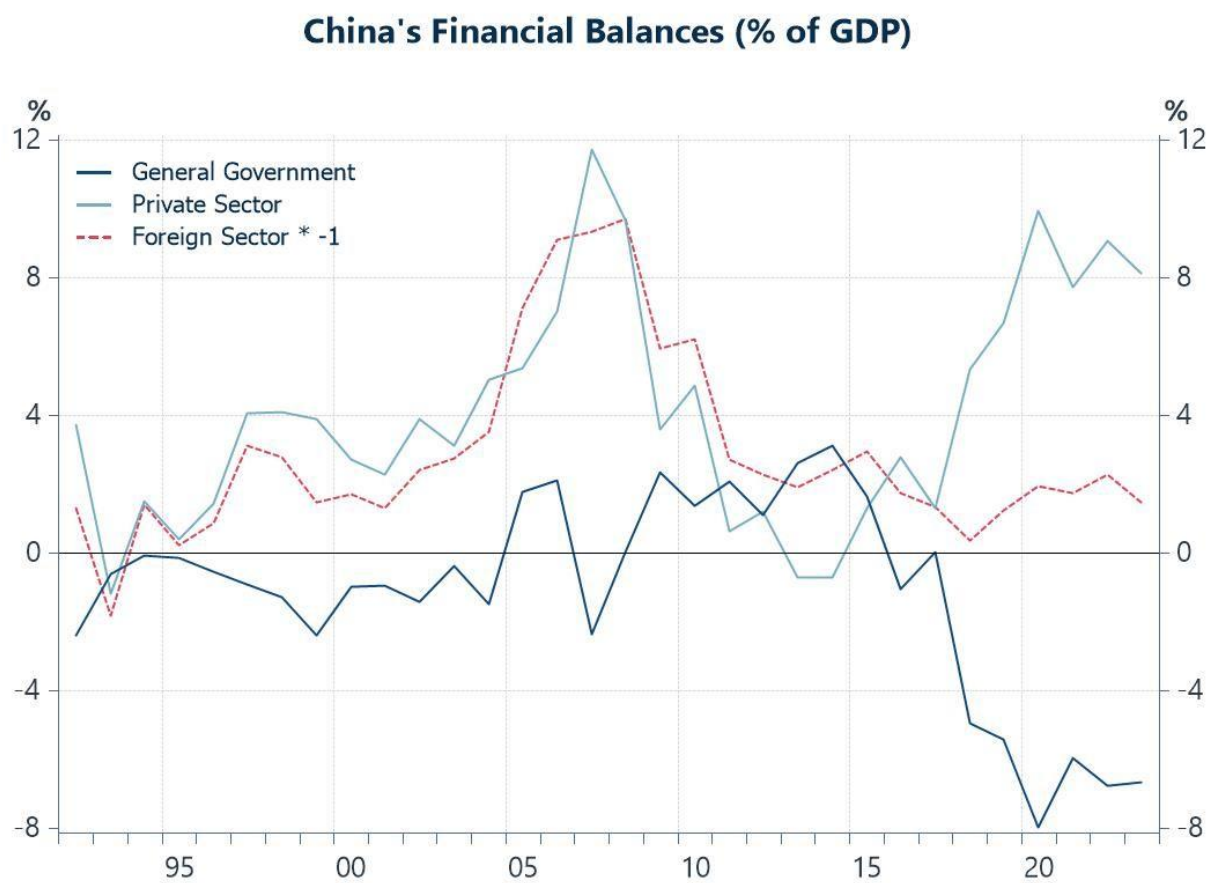


Broader topics on China

Next, we turn to broader structural trends in China's economy, starting with chart 4, which depicts China's financial balances based on its flow of funds accounts. Over the past decade, the general government has accumulated an increasingly large net deficit, as its sources of funds (liabilities) have consistently outpaced the uses of funds (assets). This has fuelled growing investor concerns over government indebtedness. In contrast, the private sector—particularly households—has seen a sharp rise in its net surplus, almost mirroring the government's deterioration. Meanwhile, the foreign sector has continued to run net deficits with China, consistent with China maintaining a current account surplus with the rest of the world. That said, unlike in the 2000s and early 2010s—when private and foreign sector balances often moved closely together—recent shifts

in the general government and private sector balances appear to have had a more limited effect on the foreign sector's position.

Chart 4: China's financial balances

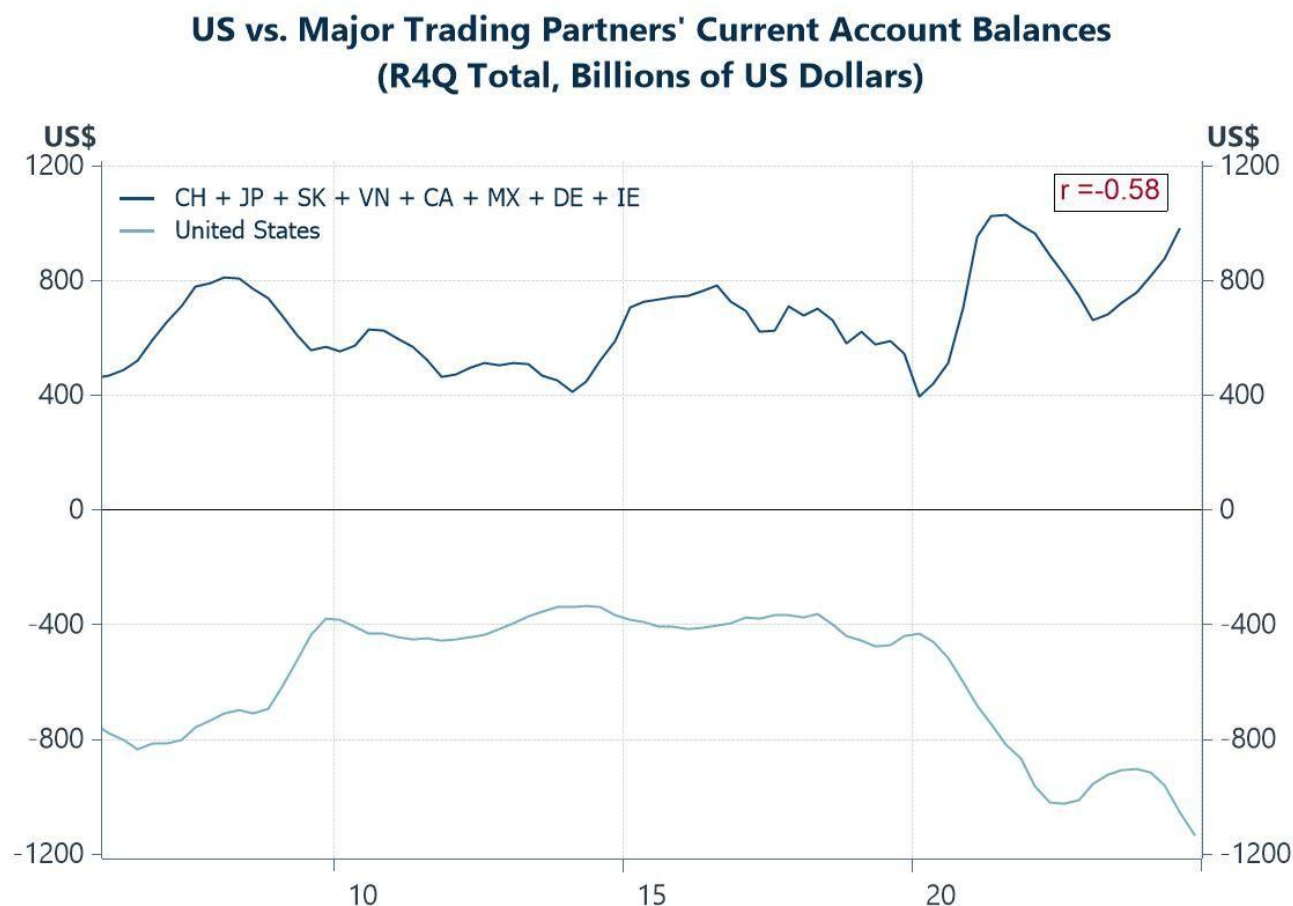


Source: China National Bureau of Statistics/Haver Analytics

The US' current account deficit

Expanding on these themes, chart 5 highlights the persistent current account deficits of the US alongside the cumulative current account surpluses of its major trading partners. Some may advocate for reducing US imports—such as through tariffs, as President Trump is currently pursuing—as a way to close the current account deficit. However, such measures tend to address only the symptoms rather than the root causes. This topic featured prominently in client meetings in Singapore. Fundamentally, the persistent current account deficit in the US can be seen as a structural outcome of the dollar's role as the world's primary reserve currency. The global demand for dollar-denominated assets drives sustained financial inflows into the US, which, by balance of payments accounting, necessitates a corresponding current account deficit.

Chart 5: US vs. trading partners' current account balances

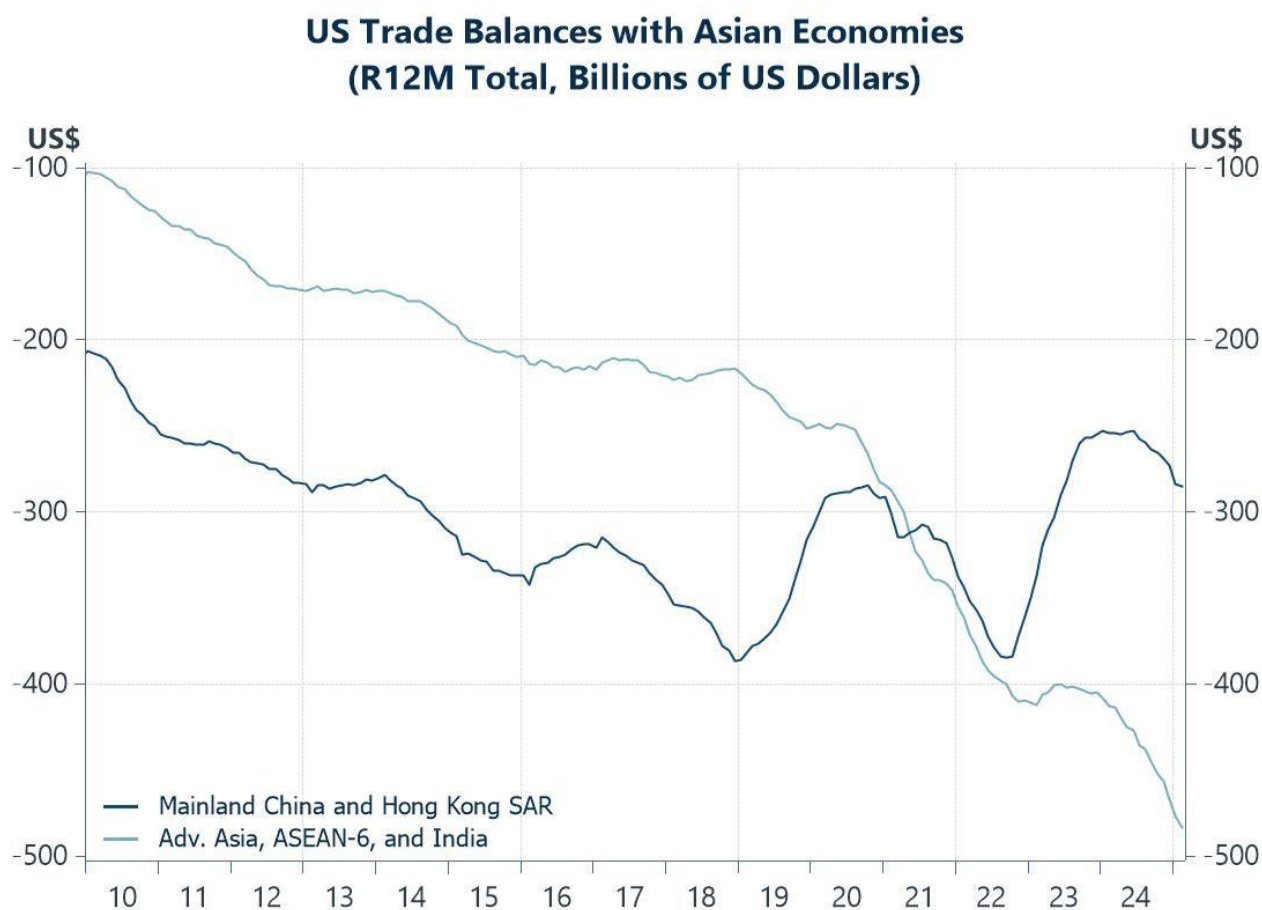


Source: International Monetary Fund/Haver Analytics

What China Plus One?

Lastly, we turn to the China Plus One strategy, a diversification approach adopted by firms and governments since US-China tensions began during Trump's first term in 2018. However, even this approach may no longer offer a full hedge against additional US trade actions. As chart 6 shows, the shift away from China has contributed to a sharp rise in the US trade deficit with several alternative partners, particularly Asian economies such as Vietnam. In light of the broader scope of US trade actions—exemplified by Trump's recent “Liberation Day” tariffs—businesses are being forced to rethink their global strategies. Some may find themselves needing to reshore production to the US, despite the fact that labour cost advantages, technical know-how, and manufacturing infrastructure for many goods remain more competitive abroad.

Chart 6: US trade balance with Asian economies



Source: US Census/Haver Analytics

About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Series info:

Chart 1: US and China cargo trade volumes

Series 1: (((USRYAMO@TRANSPRT + USRGBMO@TRANSPRT) + USEGBMO@TRANSPRT) + USYOAMO@TRANSPRT)

USRYAMO@TRANSPRT [United States: Houston: Cargo Import Volume (MT)][M]

USRGBMO@TRANSPRT [United States: Savannah: Cargo Import Volume (MT)][M]

USEGBMO@TRANSPRT [United States: New York-New Jersey: Cargo Import Volume (MT)][M]

USYOAMO@TRANSPRT [United States: Los Angeles-Long Beach: Cargo Import Volume (MT)][M]

Series 2: (((CNVXBXO@TRANSPRT + CNPVAXO@TRANSPRT) + CNAV CXO@TRANSPRT) + CNEPBXO@TRANSPRT)

CNVXBXO@TRANSPRT [China: Tianjin Xin Gang: Cargo Export Volume (MT)][M]

CNPVAXO@TRANSPRT [China: Guangzhou: Cargo Export Volume (MT)][M]

CNAV CXO@TRANSPRT [China: Zhoushan: Cargo Export Volume (MT)][M]

CNEPBXO@TRANSPRT [China: Ningbo: Cargo Export Volume (MT)][M]

CNRYBXO@TRANSPRT [China: Shanghai: Cargo Export Volume (MT)][M]

Chart 2: Drewry container index

Series 1: W1DCOMP@TRANSPRT

W1DCOMP@TRANSPRT [Drewry Container Index: Composite Freight Rate (US\$/40 ft Container)]

Series 2: W1DSHNY@TRANSPRT

W1DSHNY@TRANSPRT [Drewry Container Index: Shanghai to New York: Freight Rate (US\$/40 ft Container)]

Series 3: W1DSHLA@TRANSPRT

W1DSHLA@TRANSPRT [Drewry Container Index: Shanghai to LA: Freight Rate (US\$/40 ft Container)]

Chart 3: South Korea first 20 days of merchandise trade

Series 1: yyr%(N542IX20@EMERGEPR)

N542IX20@EMERGEPR [South Korea: First 20 Days Merchandise Trade: Exports (NSA, Mil.US\$)]

Series 2: N542XTUS@EMERGEPR

N542XTUS@EMERGEPR [South Korea: First 20 Days of Merchandise Trade: Exports to U.S. (NSA, Y/Y%)]

Series 3: N542XTVR@EMERGEPR

N542XTVR@EMERGEPR [South Korea: First 20 Days of Trade: Exports: Semiconductor (NSA, Y/Y%)]

Chart 4: China's financial balances

Series 1: A924ZFGP@EMERGE

A924ZFGP@EMERGE [China: General Govt: Financial Balance as % of GDP (%)]

Series 2: A924ZFPP@EMERGE

A924ZFPP@EMERGE [China: Private Sector: Financial Balance as % of GDP(%)]

Series 3: (-1 * A924ZFWP@EMERGE)

-1

A924ZFWP@EMERGE [China: Rest of the World: Financial Balance as % of GDP(%)]

Chart 5: US vs. trading partners' current account balances

Series 1: (movt(B156ACZY@IMFBOP,4) + movt((((B178ACZY@IMFBOP + B582ACZY@IMFBOP) + B273ACZ

B156ACZY@IMFBOP [Canada: Current Account Balance: Balance (Mil.US\$)]

B178ACZY@IMFBOP [Ireland: Current Account Balance: Balance (Mil.US\$)][M]

B582ACZY@IMFBOP [Vietnam: Current Account Balance: Balance (Mil.US\$)][M]

B273ACZY@IMFBOP [Mexico: Current Account Balance: Balance (Mil.US\$)][M]

B158ACZY@IMFBOP [Japan: Current Account Balance: Balance (Bil.US\$)][M]

B542ACZY@IMFBOP [Korea: Current Account Balance: Balance (Mil.US\$)][M]

B924ACZY@IMFBOP [China: Current Account Balance: Balance (Mil.US\$)]

Series 2: movt(B111ACZY@IMFBOP,4)

B111ACZY@IMFBOP [United States: Current Account Balance: Balance (Bil.US\$)]

Chart 6: US trade balance with Asian economies

Series 1: `movt((TMBCHK@USECON + TMBCCMA@USECON),12)`

TMBCHK@USECON [Trade Balance: Hong Kong: Customs Value (NSA, Mil.\$)][M]

TMBCCMA@USECON [Trade Balance: China (Mainland): Customs Value (NSA, Mil.\$)][M]

Series 2: `movt((((TMBCCTW@USECON + TMBCKO@USECON) + TMBCJP@USECON) + (((((TMBCIN@USECON + T`

TMBCCTW@USECON [Trade Balance: Taiwan: Customs Value (NSA, Mil.\$)]

TMBCKO@USECON [Trade Balance: Republic of Korea: Customs Value (NSA, Mil.\$)]

TMBCJP@USECON [Trade Balance: Japan: Customs Value (NSA, Mil.\$)]

TMBCIN@USECON [Trade Balance: Indonesia: Customs Value (NSA, Mil.\$)]

TMBCMAL@USECON [Trade Balance: Malaysia: Customs Value (NSA, Mil.\$)]

TMBCPHL@USECON [Trade Balance: Philippines: Customs Value (NSA, Mil.\$)]

TMBCSG@USECON [Trade Balance: Singapore: Customs Value (NSA, Mil.\$)]

TMBCTHA@U

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