Tariffs bring swift refocus of supply chains on SE Asia

Freight rates out of China have quickly slipped below the levels from Southeast Asia as the impact of tariffs rapidly refocuses the movement of goods heading for the US.

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Cai Mep International Terminal in VietnamCredit: APM Terminals

According to the latest data from the ocean intelligence service Xeneta average spot rates from China to the US increased to $2,709 per feu by 25 April, from $2,457 per feu on 31 March, compared to $2,890 per feu from Southeast Asia, which increased $426, in the same period, a more than 17% increase.

Xeneta pointed out that the spread in rates between China and Southeast Asia trades into US West Coast has widened from $7 per feu on 31 March to $181 on 25 April with Southeast Asia now the more expensive.

“We are now seeing the shifting global trade patterns caused by the tariffs play out in ocean freight rates,” said Peter Sand, Xeneta Chief Analyst, who added, “Falling demand out of China has coincided with shippers rushing imports out of Vietnam, which is subject to a 90-day pause on reciprocal tariffs. Seeing the relationship between these two trades turn on its head is an early indication of the potential for tariffs to shift global trade on its axis.”

The latest edition of HSBC Global Research’s Global Freight Monitor also sees a slump in US – China trade being partly offset by volumes from Southeast Asia.

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According to Sand the looking ahead it is “almost impossible” to call which way the Trump administration will turn in the coming months.

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“I don't think anyone in global shipping and maritime supply chains, believes that any situation will stick around for a long time. Any lesson learned, in the most recent months, has got to be that what's announced can change quickly. That kind of uncertainty will haunt you, whichever decision you make,” said Sand.

Most shippers are hoping that tariffs will be scrapped or at least mitigated, said Sand, “But no one can make long-lasting business calls on the back of fingers crossed,” he added.

Rather, there is an expectation of higher tariffs to be around “for as long as the Trump administration reigns.”

Those tariffs will most likely be targeted at China, but the real problem is for those investing in Vietnam and other alternative manufacturing centres that evolved during the first trade war with China 2018/19, “as that 'loophole' could remain a target for the Trump administration”.

If on the other hand tariffs are reintroduced and even increased, this would present a “very painful” scenario for US importers and consumers.

However, Sand said: “I believe the future approach will be more targeted, and less of a multi-front trade war. The Trump administration would probably like to keep the uncertainty around - which would make for many contingency plans being drawn up and later scrapped.”

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It is a tough for shippers to remain in limbo for a number of years, as look for ways to around “whatever is being 'thrown at them' in terms of barriers to trade”.

For Sand that means, “An elevated exposure to the spot market, and higher rates than without the uncertainty is expected in the coming years.”

At least one US shipper has a more optimistic view. Dan Krassenstein, the global supply chain director for packaging at Procon Pacific in Chicago, believes that the current spot freight rate escalation is temporary.

“It is caused by an increased demand for space from Southeast Asia and South Asia due to elevated US tariffs on China goods, combined with carriers concerted capacity constraints to try to raise rates in May,” he said.

Although Krassenstein adds that if the US-China tariff situation does not get resolved, then carriers will move more capacity from China to Southeast Asia and southern Asia, in response to an increased shift in cargo.

“Inevitably, there is simply too much vessel capacity and with anticipated lower global trade forecast for 2025, the rates will eventually come down - perhaps considerably,” concluded Krassenstein.