

As China-FedEx row heats up

## Warnings mount that trade war could bring recession

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An investigation by Chinese state authorities into why FedEx misdirected two packages sent to the technology company Huawei is likely to assume greater importance in the ongoing conflict with the US following a report that the misdirection was the result of “internal protocols” set up to comply with measures directed against the company by the Trump administration.

The misdirection took place when the packages shipped from Japan were sent to the FedEx global hub in Memphis instead of the intended recipient in China. When the news broke, FedEx apologized for the misdirection and said that “no external party required FedEx to make these shipments.”

But according to a report in the *Wall Street Journal*, citing a person familiar with the matter, changes in the company’s “internal protocols” to comply with the US crackdown on Huawei caused the company to misdirect the packages. “New restrictions on doing business with Huawei affected how FedEx handles Huawei’s packages,” the report said.

Beijing has launched an investigation into FedEx for “undermining the legitimate rights and interests of Chinese clients” and the commerce ministry has said it will compile a list of “unreliable” foreign companies following the US measures directed against Huawei that block it from US supplies of components.

The deepening economic confrontation between the US and China has been joined by the Trump administration’s decision to impose tariffs on Mexican goods, rising from 5 percent this month to 25 percent by October, on the demand that it take action to cut the flow of immigrants and refugees into the US. This has brought a series of warnings from Wall Street analysts

of the consequences for financial markets and the economy more broadly.

Morgan Stanley recently warned that a global recession could start within nine months if the Trump administration goes ahead with its threat to impose a 25 percent tariff on an additional \$300 billion worth of Chinese goods and Beijing launches retaliatory action. In a separate analysis, JPMorgan Chase said the probability of a US recession in the second half of this year had risen to 40 percent from 25 percent a month ago.

In a report to investors, Chetan Ahya, Morgan Stanley’s chief economist, wrote that markets were underestimating the impact of the trade conflict. “Investors are generally of the view that the trade dispute could drag on for longer, but they appear to be overlooking its potential impact on the global macro outlook.”

These views were echoed by John Normand of JPMorgan Chase in London. He wrote: “The move down in markets over the past month is all about trade war, but I don’t think this is fully in the price. The economic data were weakening before tariffs went up so we’ve yet to see the economic consequences of trade.”

Manufacturing figures from May showed weakness across Asia and Europe, which underscored the global ramifications of the conflict between the US and China, he noted.

Manufacturing in the US is slowing markedly. The *Wall Street Journal* reported Monday that US factories “are on track for their weakest showing this year since 2016.” It continued: “Manufacturing job growth has stalled since late last year and output has fallen in three

of the past four months as demand for business equipment and commodities weakens in the US and abroad.”

In addition, orders for durable goods were down 0.1 percent in April from a year earlier, the first year-to-year decline since 2017.

Bank of America (BofA) has lowered its forecast for profit growth and drawn attention to the risk of recession arising from the trade conflicts. Savita Subramanian, the head of US equity strategy at BofA, has cut her estimate for profit growth in S&P 500 companies as rising tariffs impact costs. “Globalisation has benefited S&P 500 margins for decades, and protectionism coupled with rising wages/input costs poses risks to peak margins,” she wrote in a note to clients.

The indirect impacts from trade tensions, including falls in consumption spending, falling confidence and the ban on Huawei, among other issues, “are likely more extreme than direct impacts,” she added. “Worst case—an economic recession.”

A former governor of the People’s Bank of China, Dai Xianglong, has warned that if the economic conflict between the US and China continues to escalate it will have a major impact on the global economy.

“The consequences of the US-China trade war not only will be reflected in both countries, but will also extend to relevant regions, extend to the whole world,” he told a press event in Beijing last week. “If the China-US trade war continues to grow larger,” he added, “it may cause the global economy to decline and may cause a global financial crisis.”

The prospect of recession is reflected in the continuing fall in yield on long-term bonds, as investors seek safety, pushing up bond prices and bringing down yields.

The gap between the yield on three-month and 10-year Treasury bonds is growing—a movement regarded as heralding a recession. And the yield on the 10-year bond could go even lower, according to JPMorgan analysts. They expect the yield on 10-year bonds to be 1.75 percent at the end of the year, compared with a previous forecast of 2.45 percent.

The downward revision was made following Trump’s move to impose tariffs on Mexico. The tariff hikes against China had already brought considerable

uncertainty, but the action against Mexico has added another dimension. Some companies, seeking to dodge the effect of the China tariffs, had been looking to shift some of their operations to Mexico, but those plans have now been thrown awry.

There is now general uncertainty over where the Trump administration could next strike. Will it be the threatened imposition of a 25 percent tariff on auto imports, hitting Japan, Germany and South Korea, or something completely unexpected like the tariffs against Mexico?

A graphic example of the turmoil was provided yesterday when the *New York Times* reported that, under pressure from US Trade Representative Robert Lighthizer and the director of trade and manufacturing policy, Peter Navarro, the administration was considering imposing tariffs on aluminium imports from Australia.

Australia was exempted from the 10 percent tariff imposed on aluminium in May last year on “national security” grounds and since then its exports to the US have sharply increased.

In the event, Trump rejected the push from within his administration. But the reasons for his decision, at least for now, only served to reveal the underlying content of the accelerating economic warfare. The cancellation of the Australian exemption was rejected on advice from senior officials at the Defense and State Departments, who argued that it would undermine the US-Australia alliance.

Australia is regarded as a frontline state in the military preparations against China, with its vital communications facilities and basing of US forces. As Trump put it when questioned on the report, “We’re doing a very special relationship with Australia.”



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