ONYX
STRATEGIC INSIGHTS

The Future of the E-Commerce Surge Out of Asia

Policy Factors & Platform Strategies

November 2024

Our vision

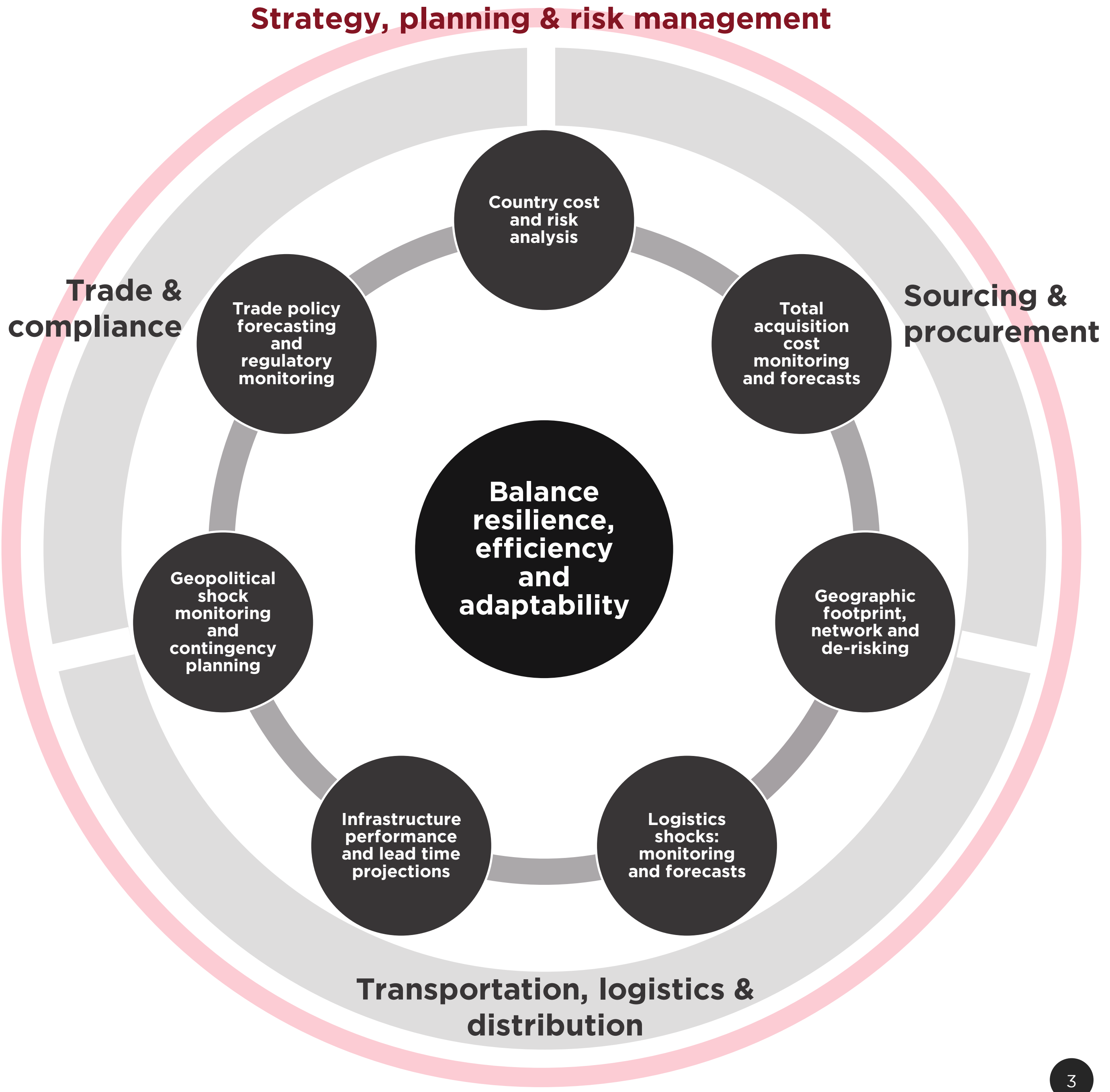
Help clients build more resilient, efficient and adaptive supply chains

.... focusing on geopolitical, economic and operational disruptors

... through advisory engagements and insights

Our service lines

Bringing together political and economic insights in service of global supply chains



Overview

SECTION I **Policy factors affecting e-commerce demand**

- Removal of de minimis benefits
- Trump tariffs
- E-commerce growth in other markets

SECTION II **Shift in e-commerce platform strategies**

- Some relief in e-commerce pressure on air freight markets in the short term
- E-commerce shipment routes may change as opposed to volumes

SECTION I

Policy factors affecting e-commerce demand

End to de minimis benefits in the EU unlikely to come soon

Current timeline is 2028 and implementation is an open question

DE MINIMIS ISN'T A STANDALONE, BUT PART OF LARGER EU CUSTOMS REFORMS

(1) CREATION OF EU CUSTOMS AUTHORITY

- Established in 2026 and fully operational by 2028
- Coordinated governance of EU customs union, incl. data mgmt., providing operational support etc.

(2) CREATION OF EU CUSTOMS DATA HUB

- Electronic implementation of customs legislation across member states
- Used by traders to fulfil reporting obligations and demonstrate compliance

CHANGES TO HOW EU RECEIVES E-COMMERCE GOODS

- Abolish de minimis benefits for goods under 150 Euros
- Make platforms responsible for ensuring compliance rather than private consumer
- Platforms treated as importers; pay customs duty and VAT

Source: EU, Van Bael and Bellis, Deloitte, Onyx

In the meantime, other policies plug the gap

But this is unlikely to materially stem the volume of e-commerce goods into Europe

POLICY ACTIONS BEYOND DE-MINIMIS HAVE LESS TEETH

- **SHEIN AND TEMU:** Designated as "**very large online platforms**" (VLOP) under Digital Services Act, which means new compliance rules from Sep '24 including external audits and risk assessments to address illegal products
  - Since the VLOP designation, e-commerce volumes remain high and undented
- **FORCED LABOR BAN:** Burden of proof on customs authority, set to be implemented in 2027
  - Stricter UFLPA has not reduce e-commerce flows to the US due to limited capacity for screening; EU's version unlikely to stem volumes
- **FAST FASHION FINES:** Member states can raise fees on fashion brands to help fund textile waste collection and treatment costs. Fines of up to €10 per item sold.
  - Ban on fast fashion approved in French National Assembly with broad support; details and timeline on EU-wide bill unclear

Source: Onyx

Action on de minimis likely in 2025, given strong political will

Some relief to air freight capacity but e-commerce profit margin an unknown

MULTIPLE PATHWAYS

- Bipartisan interest in Congress, impasse on two proposals
- Congress calling on DHS, Treasury for suspension under Section 321 of Trade Enforcement and Trade Facilitation Act
- Executive actions are pending with rule-making forthcoming and more possible under Trump

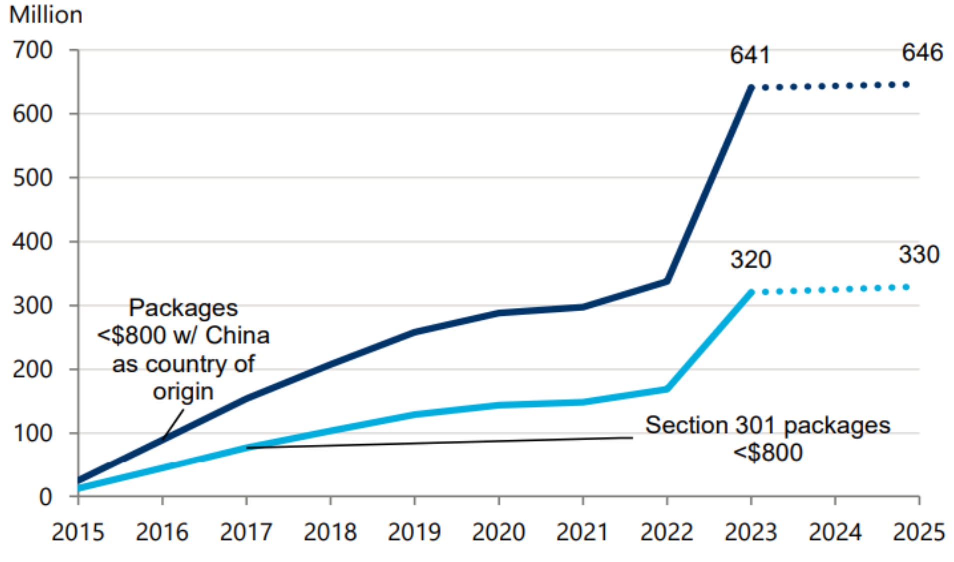
1 **Import Security and Fairness Act (Rep. Blumenauer)**
- Prohibit goods from designated non-market economies—currently China and Russia—from de minimis eligibility
- Estimated to cost $2.6b annually to CBP

2 **End China's De Minimis Abuse Act (Rep. Murphy)**
- Deny de minimis benefits from goods subject to Section 301 tariffs and other trade actions
- Estimated to cost $0.6b annually to CBP

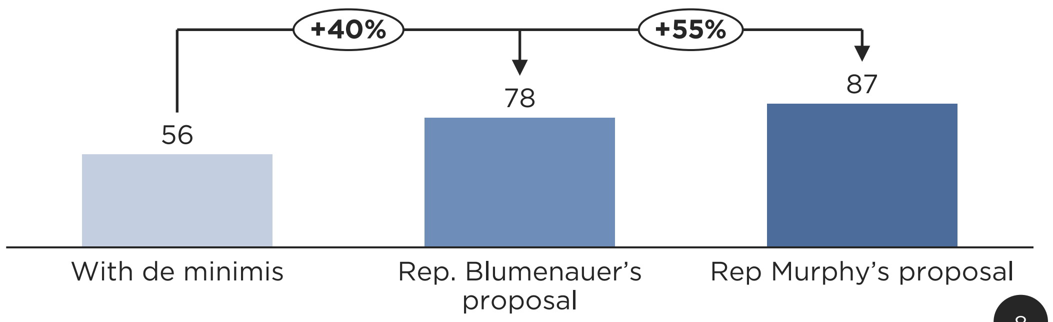
3 **Remove de minimis from all shipments**
- Remove or lower de minimis threshold for all countries and products
- Possible but unlikely approach due to high implementation cost, unclear legality, limited benefits

PROJECTED IMPACTS

ESTIMATED NUMBER OF PACKAGES



ESTIMATED AVG. PRICE OF A DE MINIMIS PACKAGE $US



Source: Inside Trade, Oxford Economics, CBP, Onyx

Trump admin goals remain unclear, China action likely

Heavy-handed tariffs will crimp e-commerce inflows more than de minimis

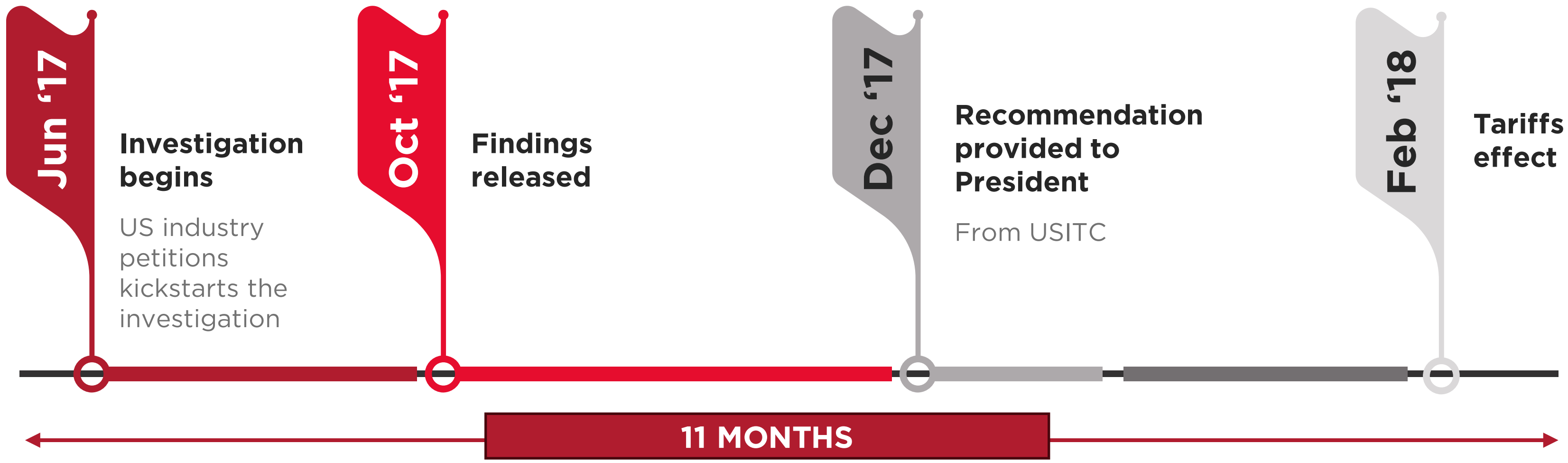
TRADE GOALS AND HYPOTHETICAL US TACTICS

	BROAD PROTECTIONISM	TRADE BALANCE "RESTORATION"	CHINA STRATEGIC DECOUPLING
China	**High, relatively targeted tariffs**	High pressure tactics for key economic reforms	Phased addition of high trade barriers
RoW	Across-the-board tariffs	Escalating tariffs, increasing pressure on trade concessions	Pressure to reduce Chinese inputs, make trade concessions
Timeframe	Permanent	Duration of imbalance	Duration of dispute
Retaliation	Proportionate global tariffs	High from all net exporters to the US	High from China, other countries variable
Trade balance	Recessionary impacts	Net reduction, recessionary impacts	No net reduction, recessionary impacts
Trade diversion	**Dampened by rest of world tariffs**	Limited, primarily to low imbalance countries	High

Souce: Onyx

But the timeframe matters: multiple pathways to tariffs

Implementation could come in immediate months after confirmation or in 2026



OR HASTEN THE TIMELINE THROUGH:

- International Emergency Economic Powers Act (IEEPA)
- Executive Order
- Using PNTR revocation as a negotiation tactic

WHICH COULD MEAN MONTHS AFTER CONFIRMATION

PRECEDENT: SECTION 201 TARIFFS ON RESIDENTIAL WASHING MACHINES

- If president uses section 201 to propose a tariff, USITC conducts an investigation and must submit a finding within 120-150 days
- Similar tariffs under section 232 (steel, aluminum) and 301 (IP, innovation) also take 11 months

WE CAN EXPECT A SIMILAR TIMEFRAME FOR THE NEW ROUND OF TARIFFS

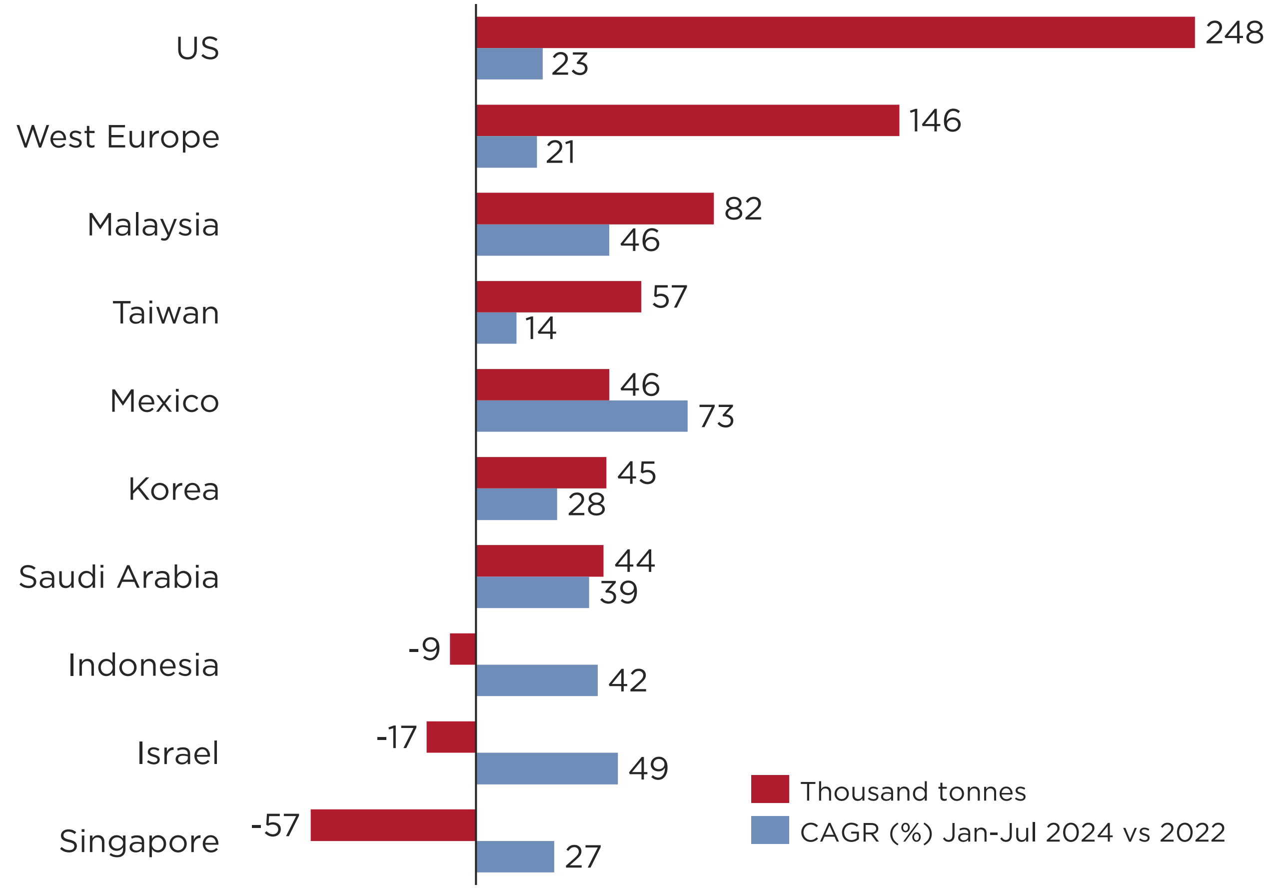
- Difficult to ascertain which section of trade laws Trump will use – Trade Act of 1974 or Tariff Act of 1930, different section etc. with varying criteria
- But effect won't be immediate; impact to China trade may not emerge until 2026

Souce: Oxford Economics, Onyx

Tightness in air cargo capacity from e-commerce demand may not just be a US/Europe issue

E-commerce demand in other markets is also growing, with some limits

E-COMMERCE GROWTH OUTBOUND FROM CHINA BY DESTINATION



BUT POLICY BARRIERS KICK INTO PLACE...

MALAYSIA
- 10% tariff on imports under US$105
- Considering banning TikTok e-commerce

MEXICO
- Considering imposing tariffs on e-commerce parcels from China

KOREA
- Ban e-commerce sales of 80 product categories, incl. children’s products, household goods and chemical products etc.

INDONESIA
- Preparing to ban Temu
- VAT on e-commerce imports with import value between US$3-1500

Source: Rotate, Onyx

SECTION II

Shift in Chinese e-commerce platform strategies

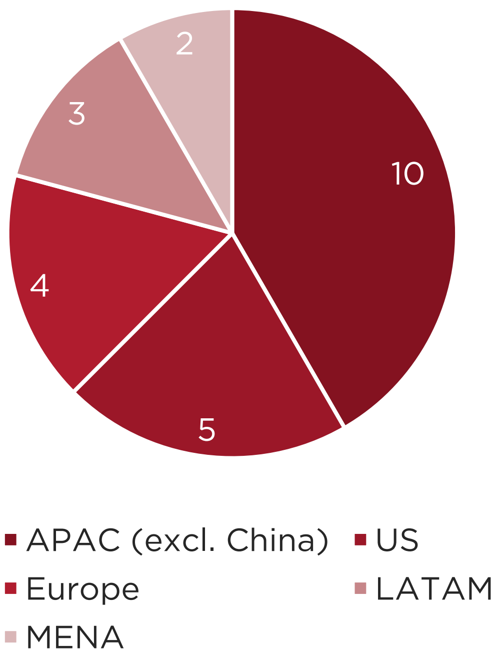
Chinese e-commerce firms are shifting supply chain strategies

Including overseas warehousing, manufacturing, and contracting foreign suppliers

1. Investing in overseas warehouses

Key Chinese e-commerce players, SHEIN, PDD, Alibaba (incl. Cainiao, Aliexpress, Lazada) are investing in warehouses, DCs, and fulfilment centers outside of China

GREENFIELD FDI FROM 2022-2024 BY MAJOR CHINESE E-COMMERCE PLATFORMS



PROJECT HIGHLIGHTS

- SHEIN: 2 DCs + 1 fulfilment hub in US, 1 warehouse + 1 DC in UK and Poland
- AliExpress: 1 logistics center in South Korea + 1 DC in Israel

2. Some manufacturing outside China

SHEIN is a key player to move into manufacturing in past 2 years, mainly in Latin America

MEXICO CITY, 2023

- The factory will produce SHEIN items and is part of the company's push to localize production and cut distribution costs, shipping times in LATAM

BRAZIL, 2023

- Investment of US$150M to produce SHEIN items
- Goal: by end of 2026, about 85% of its sales will be local, from both manufacturers and vendors

Source: GlobalData, Onyx

The scale of overseas expansion will not ‘solve’ the China outbound air freight capacity issue

But it does point to some relief in e-commerce pressure for the near term

3. Contracting overseas suppliers and warehouses

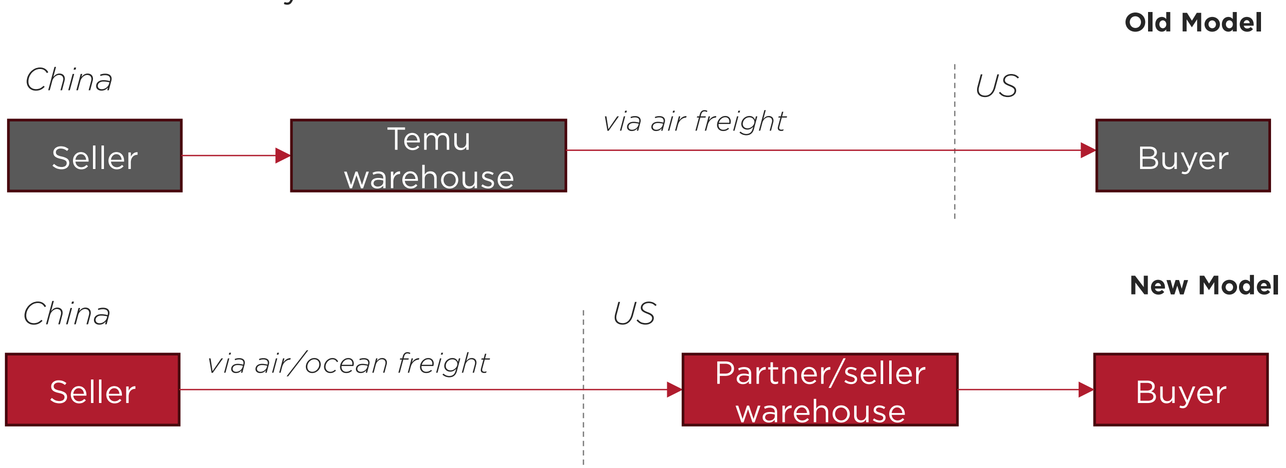
There is a divergence in SHEIN and Temu’s overseas expansion strategy, with implications for impact to air cargo capacity ex-China

WAREHOUSING

- Temu leverages warehouses offered by WINIT and Easy Export to hold inventory in the US
- Sellers ship directly to the US warehouses, which is then delivered to the buyer
- Bypasses de-minimis restrictions and reduces delivery time

SELLER CONTRACTING

- Contract sellers who already have overseas warehouses
- Sellers take on shipping, warehousing, and last-mile delivery costs



KEY IMPLICATIONS FOR AIR FREIGHT MARKET

- **Gradual reduction of reliance on China outbound air cargo** as e-commerce platforms able to service customers closer to end market
- US trade policy under Trump to hasten this localization drive
- But the **pace and scale** of this expansion is not large enough to ‘solve’ the capacity issue in the short term
- Temu reportedly considering using **ocean freight** in attempt to reduce logistics costs; new model gives them more flexibility re delivery times

Source: Marketplace Pulse, Retail Gazette

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