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Manufacturers Move Back to China as Renewal of U.S. Trade Deal Is Delayed

Some businesses that shifted production to Southeast Asia are going back as tariffs cut into their margins

By Jason Douglas Follow

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SINGAPORE—Adam and Amy Fazackerley shifted production of their drawstring organizers for cosmetics and travel to Cambodia from China in 2019 in response to U.S. tariffs aimed at curbing Chinese imports. Now they have started moving orders back to China.

The reason: The U.S. hasn't renewed a decades-old trade deal for developing countries. Their imports from Cambodia now face tariffs, too, crushing profit at their company Lay-n-Go LLC, based in Alexandria, Va. Cheaper shipping costs in China and its unmatched ability to manufacture huge numbers of products quickly mean they can't afford not to go back.

"We are a small business. We try not to complain, we try to adapt," said Mr. Fazackerley. By moving manufacturing away from China, he and his wife believed they were doing what successive U.S. administrations and Congress had signaled they wanted. "And you screwed us," he said.

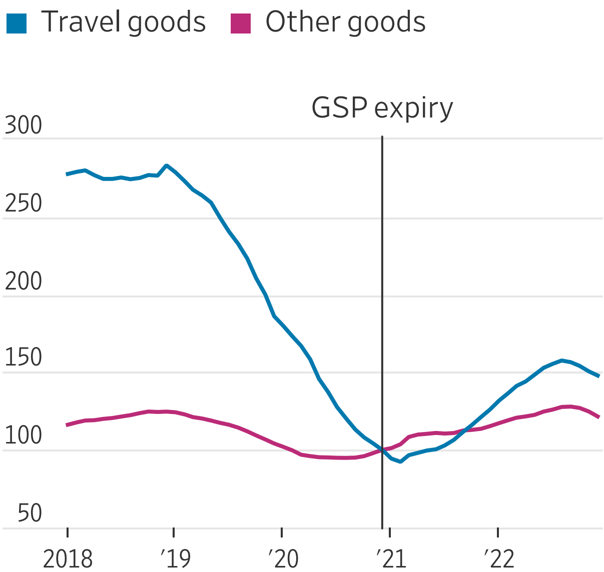
The expiration of the Generalized System of Preferences, or GSP, in December 2020 meant more than 100 countries lost tariff-free access to the U.S. market for thousands of goods, from travel bags and jewelry to car parts and lamps.

The program has expired more than a dozen times since it came into force in 1975, but has usually been swiftly renewed. This time, renewal has been complicated by political wrangling over how to decide which countries should be eligible for GSP benefits, as well as procedural hurdles linked to broader disagreements in Congress over trade and China.

Trade Reversal

U.S. imports of bags and other travel products from China were hurt by 2018 tariffs; they have picked up since the GSP expired.

Index of imports from China



Note: Index calculated from 12-month trailing totals, December 2020=100
Sources: Trade Partnership Worldwide; U.S. Census Bureau

For the U.S. economy as a whole, the lapse isn't significant, accounting for a tiny percentage (a bit under 1%) of U.S. imports, which overall notched almost $4 trillion in 2022.

But for some businesses, it has meant surging costs and hard choices about where to manufacture. More broadly, executives and trade experts say, the failure to renew the GSP is an avoidable flaw in U.S. trade policy toward China that risks denting investment in countries that show promise as alternatives for manufacturing outside China's vast factory floor.

"If you want people to move out of China, don't raise tariffs on all its competitors," said Dan Anthony, managing director of Trade Partnership Worldwide, an economic consulting firm based in Washington, and executive director of the Coalition for GSP, an advocacy group for U.S. companies and trade associations seeking the agreement's reinstatement.

The GSP is one of the U.S.'s oldest and largest trade agreements, developed in the 1970s with the goal of boosting trade and economic development by eliminating tariffs on goods manufactured in developing countries. The program has traditionally drawn bipartisan support, but initial efforts to renew it after its 2020 expiration were frustrated by disagreements over eligibility criteria for potential beneficiaries.

Democrats were eager to update the GSP to ensure beneficiary countries meet standards related to worker and gender rights, the environment and the rule of law, which they say would bring the agreement into line with broader U.S. trade policy. Republicans resisted, saying that adding more conditions risked hurting trade with developing countries.

Adam and Amy Fazackerley run a company based in Alexandria, Va., and have started moving production of their drawstring organizers back to China. PHOTO: ALEC GILLINDER

In 2021, the Senate agreed, 91-4, to reauthorize the GSP after lawmakers hammered out a compromise that broadened eligibility rules to encompass some of those goals. The legislation was initially part of a bill that became the Chips Act, aimed at boosting American semiconductor manufacturing, but GSP renewal and other, more contentious trade-related aspects of the proposals were jettisoned to speed the Act's approval.

When the GSP expired, goods from 119 developing countries and territories, including Thailand, Brazil, the Philippines, Indonesia and Cambodia, that had been eligible for duty-free import to the U.S. were hit with tariffs. U.S. importers had to choose between hiking prices for consumers, absorbing the hit through lower profit or finding a cheaper place to manufacture.

For some U.S. companies, that has meant returning to China.

Gary Lemanski, president of Altus Brands LLC, based in Grawn, Mich., imported leather rifle bags, used by sporting shooters to steady their aim, from the Philippines tariff-free under the GSP for almost three years before deciding to move production back to China in early 2022. The quality of the finished product was better in the Philippines, but transport and other costs were higher compared with China, said Mr. Lemanski.

Once the GSP lapsed, the bags were subject to a tariff of 17%, which wiped out his profit. Sales of the bags account for about 10% of Altus's annual revenue, so once it became clear the GSP wasn't in line for a quick renewal, Mr. Lemanski shifted production back to the Chinese city of Ningbo, near Shanghai.

"In order to keep that product line alive I had to go back to having that product produced in China," Mr. Lemanski said.

Triad Magnetics—a unit of Taiwan's Axis Corp. based in Perris, Calif., that makes transformers and other components for electronic devices—moved around 80% of its production to the Philippines from China five years ago in anticipation of rising costs from labor shortages in China and a strengthening Chinese currency.

The U.S. levies an import duty of 6.6% on the kind of transformers made by Triad but its imports from the Philippines were tariff-free under the GSP, said Bill Dull, president of Triad Magnetics.

The move paid off when the Trump administration in 2019 hiked the import surcharge on transformers made in China to 25%. "We started to see a real competitive advantage over made-in-China products," said Mr. Dull.

But with the end of GSP and a fall in the value of the Chinese currency, that advantage evaporated, he said. Even with the 25% surcharge in place, Chinese manufacturers are still highly competitive on price thanks to government support and sophisticated supply chains. Mr. Dull said the company sourced about 22% of its imports from China last year, and that could rise to 30% or more this year.

Mr. Dull said he can't understand why Congress hasn't renewed the program. Not only does it help developing nations compete with China, it gives U.S. manufacturers access to cheap components to hone their competitive edge in the global economy, he said.

The Biden administration, which is supportive of companies reordering their supply chains away from China, wants the GSP renewed.

"The GSP program is critical to helping beneficiary countries and economies create sustainable growth," said a spokesman for the U.S. Trade Representative's office, adding the agency is providing technical assistance to Congress in an effort to make this possible.

Lawmakers on both sides of the aisle in the new Congress say they are optimistic the GSP can soon be renewed.

A screenshot from a video showing some of the testing and retooling that the Fazackerleys said they had to do in Cambodia as part of moving production from China. PHOTO: LAY-N-GO

"We need to have friendlier policies to the supply chains that are hurting so badly," said Rep. Adrian Smith (R., Neb.), chairman of the trade subcommittee of the House Ways and Means Committee. "The fact that it has lapsed so long is really inexcusable," he said.

Sen. Ron Wyden (D., Ore.) said securing a GSP extension is a priority. "A multiyear GSP extension with key improvements will give importers the certainty they need to continue developing supply chains outside of China," he said, referring to the kind of enhanced rules on eligibility agreed by the Senate.

For the Fazackerleys, the expiration of the GSP came on top of the disruption of the pandemic. The company had to turn down lucrative contracts because it couldn't be sure it could deliver on them, Mr. Fazackerley said.

In 2022, Lay-n-Go placed a handful of big orders with its old suppliers in China. Though it still faces a surcharge of 25% to bring its products in from China, on top of a standard 17% tariff that it now also pays on imports from Cambodia, China's factories are more predictable in terms of pricing and delivery.

The experience has been frustrating but the Fazackerleys are pushing ahead with growing their business and developing new products, including a line of messenger bags. "If you don't want to be challenged, you are in the wrong game," Mr. Fazackerley said.

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