US-China trade dispute

China set to account for less than half of US's low-cost imports from Asia

Reshoring index shows inbound Chinese goods fell to lowest level in 10 years amid geopolitical tensions

Chinese goods made up 50.7% of US imports of manufactured products from Asian countries last year, down from almost 70% in 2013, as many companies looked to lower-cost alternatives © AFP/Getty Images

Primrose Riordan, **Chan Ho-him** and **Andy Lin** in Hong Kong and Joseph Leahy in Beijing JUNE 3 2023

China will soon account for less than half of the US's low-cost imports from Asia for the first time in more than a decade, new data has shown, as western companies shift operations out of the country.

According to an annual reshoring index from Kearney, the Chicago-based management consulting firm, US efforts to reduce reliance on China, as well as price-sensitive American buyers, are driving trade towards lower-cost alternatives in Asia.

"By the end of 2023, China's portion of US imports" from low-cost Asian countries, which excludes Japan and South Korea, "will definitely have dropped below 50 per cent", said Patrick Van den Bossche, one of the report's authors.

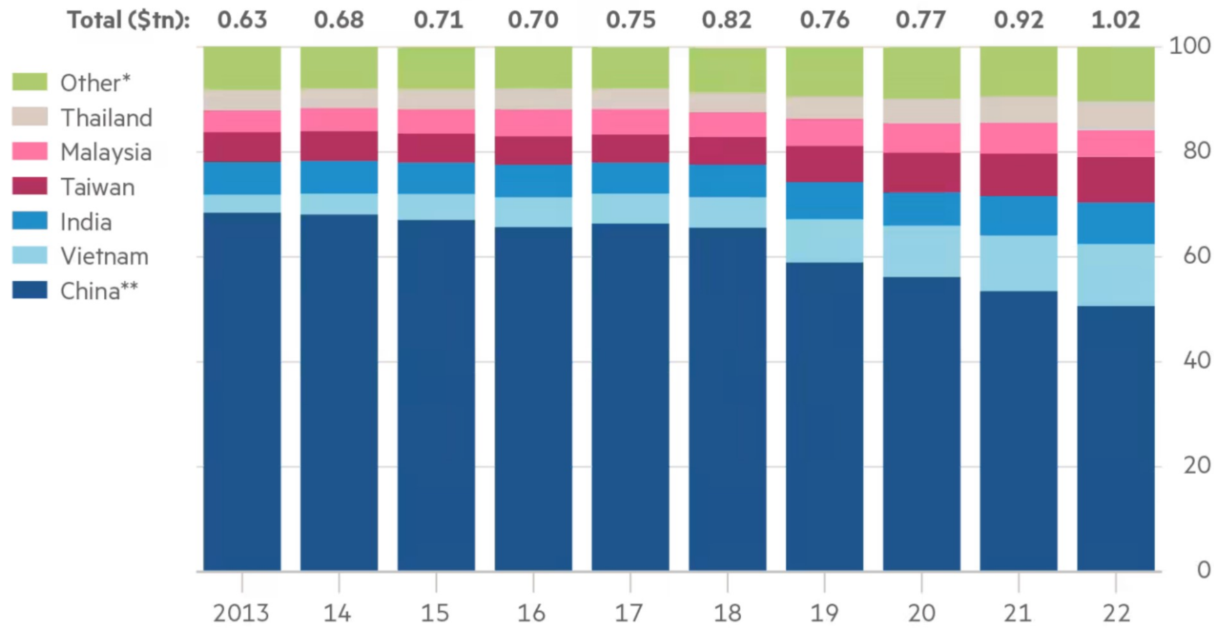
The US and China are each other's largest respective trading partners. Last year, Chinese goods made up 50.7 per cent of US manufactured imports from Asian countries, according to the Kearney Reshoring Index, which is based on US trade data. That was down from nearly 70 per cent in 2013.

While exports from China, once hailed as the world's factory floor, have declined, imports from Vietnam have doubled in the past five years and tripled over the past 10, according to the Kearney index. India, Taiwan and Malaysia have also contributed a greater share of products from Asia consumed by Americans.

"US imports from other countries such as Vietnam [are] rising as producers shift manufacturing away from China," said Tu Xinquan, dean of the China Institute for WTO Studies at the University of International Business and Economics in Beijing.

US is importing more from other low-cost Asian countries at China's expense

Breakdown of imports from Asian low-cost countries (%)



* Includes Philippines, Indonesia, Pakistan, Sri Lanka, Bangladesh, Singapore and Cambodia
** Includes US imports from Hong Kong

Source: Kearney Reshoring Index

The relocation of manufacturing out of China was initially spurred by protectionist Trump-era tariffs on goods, as well as labour shortages in China that drove up wages and costs.

But the trade segregation between the superpowers has accelerated under the Biden administration, which has pursued an economic security agenda amid tensions over issues ranging from advanced semiconductor technology to Beijing's threats against Taiwan.

New US laws "continue to lead to increased investments away from China and into the US and Mexico when it comes to, for example, semiconductor manufacturing [and] EV [electric vehicle] batteries," said Van den Bossche, referring to legislation such as the Inflation Reduction Act and the Chips and Sciences Act, which offer subsidies to encourage chipmakers to reshore operations.

In a March report, analysts at Morgan Stanley said: "Increasing labour costs in China, geopolitical tensions and human rights issues have encouraged other companies to rely less on Beijing as the world's factory."

"The disentangling of the two economies has led to critical manufacturing coming home and a shift in imports from China to the Association of Southeast Asian Nations, India and Mexico," they added.

Container volumes also reflect a shift in US imports from other low-cost Asian markets at China's expense.

China's share of total US container imports declined from a peak of 42.2 per cent in February last year to 31.6 per cent in March this year, though it has since climbed again as its economy reopens from pandemic controls, according to Canada-based logistics technology company Descartes. India's and Thailand's share grew slightly to logistics technology company Descartes. India's and Thailand's share grew slightly to 4.1 per cent and 3.8 per cent, respectively, between February 2022 and April 2023.

Phoebe Gao, from shoemaker UT Footwear in China's southern coastal Fujian province, said some manufacturers were pivoting to offer higher-end products and improved services to compete with "basic styles" offered by cheaper suppliers abroad.

Some manufacturers are looking even further afield, expanding their presence in south-east Asia and beyond as global inflation rises and brings up wages. Water heater producer Guangdong Vanward New Electric said it was opening production sites in Egypt as well as Thailand in response to demands from US clients.

"You either move closer to the market, or you move close to your resources," said Simon Goh, general manager of Arise IIP China, which operates manufacturing industrial zones in partnership with local governments in Africa. "If you look into

Africa, if you look at other places, there's also a huge growing [labour supply]."

But there is a limit to the share of manufacturing in China that can practically be replaced elsewhere, Kearney's Van den Bossche said, citing chemicals in particular.

A 2019 Deutsche Bank study of 719 products for which the US relied on China found that 95 per cent of them could be supplied from elsewhere in Asia. The 38 remaining items "were made up largely of chemical and related goods", the report said.

Additional reporting by Gloria Li in Hong Kong