BUSINESS

Trump's sharp tariff hikes could speed up China's shift to new markets and offshore factories

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YIWU, China (AP) — Visitors who bought fridge magnets at Times Square or other tourist hotspots around New York in recent years most likely were purchasing the work of Du Jing or one of her fellow exporters in a small Chinese city that supplies the U.S. and the world with tons of small commodities.

Du and her husband run Yiwu Xianchuang Handicraft Manufacturing in the eastern city of Yiwu, home to the world's largest wholesale market. Products from here -– ranging from plushies to glass vases and portable toolboxes -– are sold in stores and on online platforms around the world, including to U.S. consumers on Amazon.

For years, the United States has been a major destination for Chinese goods, but exporters like those in Yiwu have been reducing their reliance on the world's largest consumer market as Beijing and Washington feud over trade. Some have moved production to Southeast Asia and other parts of the world to evade U.S. tariffs on Chinese goods.

Those trends look to accelerate under President-elect Donald Trump, who has threatened to sharply raise tariffs on all Chinese imports and close some loopholes exporters currently use to sell their products more cheaply in the U.S. If enacted, his plans would likely raise prices in America and squeeze sales and profit margins for Chinese exporters.

Chinese exporters are already looking at new markets

Du, speaking from her booth in the Yiwu wholesale market, the walls covered in colorful magnets and keychains, isn't sure whether higher tariffs or a worsening U.S. market are to blame. What she knows is sales are down.

"The U.S. market has shrunk a lot," she said. "It gives me the feeling that it has something to do with their financial situation."

American customers have been putting a lot of pressure on prices since 2019, frowning at any product that wholesales for more than 25 cents, she said.

Du Jing stands by variety fridge magnets displayed at her store in the Yiwu wholesale market in Yiwu, east China's Zhejiang province on Nov. 8, 2024. (AP Photo/Andy Wong)
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In contrast, the Middle East has become a better market, with higher prices and increasingly larger orders, she said.

Elsewhere in the sprawling market, the owner of Yiwu Bixuan Import Export Co. Ltd., echoed her thoughts. Chen Yong's trading company exports glass vases and other home decor, and Chen said business with the U.S. and Europe has suffered over the past few years – but it has boomed with other regions such as Southeast Asia, Africa, South America and Russia.

The share of China's exports going to the U.S. dropped from 19% in 2018 to 15% last year, according to China customs data, even as China's overall exports are forecast to reach a record high this year.

Trump has mentioned tariff hikes of 60% or more. On Monday, he said he would impose an extra 10% tariff on goods from China and a 25% tax on all products entering the country from Canada and Mexico as one of his first executive orders.

Higher tariffs would force Chen to raise prices or accept lower profit margins, he said. If American customers won't accept higher prices, the only choice would be to turn elsewhere.

"We have to wait and see how much he will increase the tariff before knowing how big the impact on us can be," he said. "We don't know now."

An expert says 'no one can face' 60% tariffs

A 60% tariff would have a severe impact on Chinese exports to the U.S., said Tu Xinquan, director of the China Institute for WTO Studies at the University of International Business and Economics in Beijing.

"Many companies will completely halt their trade with the U.S.," he predicted. "If the tariffs were not that huge, larger companies could cope better with the situation than medium and small companies. But if it's 60%, no one can face that."

Light manufacturing and textiles are among the industries expected to be hit hardest by new tariffs, along with steel and computers, according to a report by Chinese brokerage Caicong Securities.

A woman walks out from a store selling decorative lights at the Yiwu wholesale market in Yiwu, east China's Zhejiang province on Nov. 8, 2024. (AP Photo/Andy Wong)
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During his first term in office, Trump imposed tariffs on more than $360 billion worth of Chinese products. The tariffs put the brakes on a fairly steady rise in Chinese exports to the U.S. They fell at first, then bounced back as the U.S. economy boomed, before leveling off at $500 billion last year.

The Biden administration kept most of Trump's duties and layered on fresh ones on products such as steel, solar cells and electric vehicles. Biden's approach has focused on sectors considered strategic, such as artificial intelligence and green energy. Trump's proposed blanket tariffs could spill over into daily-use goods, pressuring smaller manufacturers like those in Yiwu.

Furniture, toys and games were among the top Chinese export categories to the U.S. last year — after electronics and machinery — according to trade data compiled by the United Nations.

Trump wants to end an exemption for shipments under $800

Trump has vowed to close loopholes through which Chinese goods bypass U.S. tariffs. One such loophole is an exemption that allows small packages under $800 to enter the U.S. duty free. Many of the products sold through Amazon's third-party marketplace and on the Chinese platforms Temu and Shein qualify for this exemption.

Workers pack fashion accessories at the Yiwu wholesale market in Yiwu, east China's Zhejiang province on N Read More

Biden's administration proposed restricting the tax waiver for goods subject to U.S.-China tariffs, and Trump is expected to move forward with such restrictions, analysts said.

"This would be a crushing blow to Chinese exporters who have built business models around those low-value exports," said Eswar Prasad, a professor of trade policy at Cornell University and a former head of the China division at the International Monetary Fund.

It would also be "a big loss to low-income American consumers," said Gary Hufbauer, a senior fellow at the Peterson Institute for International Economics in Washington, D.C. "Evidence shows that they really benefit from the exemption."

Some Chinese companies are moving production abroad

One workaround for Chinese companies has been moving production abroad. Since Trump started a trade war with China during his first administration, the average U.S. tariffs on Chinese goods have been about 20%, according to Ma Hong, a professor of economics at Tsinghua University in Beijing.

To avoid these tariffs, some Chinese companies have shifted their factories to countries like Vietnam and Mexico.

Shenzhen HIHO Luggage and Bag Industry Development Co., Ltd. opened a factory in Indonesia in 2021. The luggage producer employs about 600 workers in Indonesia and has a similar workforce in China, where it runs factories in three provinces.

The company exports about a quarter of its production to the U.S., according to its marketing director, Steven Wang. He believes that some of the company's clients in Mexico may also be reselling their products to the U.S.

"No one likes to do business at a loss," Wang said. "If Trump imposes any additional tariffs on Chinese goods from ASEAN countries or Mexico, we may need to move the factories somewhere else."

Mistreanu reported from Taipei, Taiwan. Associated Press video producer Wayne Zhang in Yiwu and researcher Yu Bing in Beijing contributed to this report.