CHINA’S EXPORTS ARE SURGING DESPITE TARIFFS AND PANDEMIC.

By Keith Bradsher

ZHONGSHAN, China — This was supposed to be the year that China’s export machine began to stall. President Trump had imposed broad tariffs on Chinese goods. Countries like Japan and France pushed companies to shift production from China. The pandemic had crippled China’s factories by the end of January.

Instead, China Inc. has come roaring back.

After reopening in late February and early March, China’s factories began an export blitz that is still gaining steam. Exports soared in July to their second-highest level ever, nearly matching the record-setting Christmas rush last December. The country has grabbed a much larger share of global markets this summer from other manufacturing nations, entrenching a dominance in trade that could last long after the world begins to recover from the pandemic.

China is showing its export machine cannot be stopped — not by the coronavirus and not by the Trump administration. Its resilience lies not only in the country’s low-cost, skilled labor and efficient infrastructure but also in a state-controlled banking system that has been offering small and large businesses extra loans to cope with the pandemic.

The pandemic has also found China better placed than other exporting nations. It is making what the world’s hospitals and housebound families need right now: personal protection gear, home improvement products and lots of consumer electronics.

At the same time, demand has withered for many big-ticket items exported by the United States and Europe, like Boeing and Airbus jets. And with most economies except China’s now mired in recessions, demand has also faltered for the commodities that most developing countries export, particularly oil.

Families all over the world are sprucing up the homes they are now stuck inside. They have been buying everything from computer screens and stereo systems to power tools and home saunas — many of which are made in China.
Hongyuan Furniture in the southern city of Guangzhou has hired 50 extra workers after export orders for its home saunas more than doubled this year. A short drive farther south in Zhongshan, Star Rapid has stayed profitable, making robot casings and quickly producing high-tech models — a process known as rapid prototyping. And a few miles to the west, Trueanalog has ruled out moving production of its top-end stereo speakers to the United States, its main market, or to Vietnam, where wages can be even lower.

At Trueanalog, rows of workers at long, green tables under fluorescent lights meticulously assemble audio speakers for professional recording studios in the United States. China dominates the world’s production of the components that go into the speakers they are putting together — whether magnets, paper cones or rubber foam.

“China has the largest supply chain of the parts you need to make a speaker, and China has the most stable, affordable labor force,” said Philip Richardson, the American owner of Trueanalog.

Star Rapid, the prototype maker, has benefited from Chinese loans. Within days of the start of the pandemic, the state-controlled Bank of China called Gordon Styles, the company’s British chief executive and owner, and strongly urged him to take a $1.4 million corporate loan at low interest, which he did even though the company was still profitable. Chinese authorities also granted the company a rapid-fire series of partial rebates on taxes and government-mandated benefit costs that together exceeded 3 percent of the company’s sales.

“They wanted to make sure the good companies, as they measure that, don’t fail for lack of a bit of cash,” he said.

The strength of China’s export machine complicates the Trump administration’s push to reduce the trade deficit — the gap between what the United States exports and what it imports. Mr. Trump points to the deficit as proof that unfair practices by China have been hurting the United States, and has campaigned on promises to get tough on China.

Last January, China promised big increases in its imports from the United States as part of an agreement aimed at ending a protracted and increasingly bruising economic war. But actual purchases have lagged.

The agreement left in place most of Mr. Trump’s new tariffs, mainly at 25 percent. Yet those tariffs do not seem to deter many Americans from buying Chinese products, in part because the tariffs are collected only on the wholesale value of products when they reach America’s shores.

Hongyuan says it has not yet encountered any new competition from home sauna manufacturers based elsewhere despite facing 25 percent American tariffs for the past two years. Hongyuan also has access to dozens of suppliers within an hour’s drive that compete vigorously to produce inexpensive glass doors and hinges at the lowest cost.
So Hongyuan can afford to import lumber across the Pacific from Canada, saw the wood and polish it and assemble it into home saunas, and then ship the saunas in kits back across the Pacific all for less than it costs to make saunas in the United States. Considerable hand labor is still involved, although Chinese-made automatic saws now take the lumber in one end and put out boards of various shapes and dimensions.

“Even with the 25 percent tariff, the manufacturers in China still have lower costs,” said Rachel Wang, the company’s export manager.

Such a cost advantage has helped drive China’s share of world exports to nearly 20 percent in the April-to-June quarter this year, up from 12.8 percent in 2018 and 13.1 percent last year, said Rajiv Biswas, the chief Asia economist at IHS Markit, a global data and consulting firm.

Part of that increase is temporary. Some factories elsewhere closed temporarily during the spring because of coronavirus lockdowns or supply chain disruptions linked to the pandemic. China’s own share of global exports dipped somewhat in the January-to-March quarter, to 11 percent, as it was battling the virus.

But China now appears strong in exports across many sectors, even as the cost of its imports is likely to stay low for months to come. China’s trade surplus — when the value of its exports exceeds that of its imports — has ballooned this summer, especially in July.

China’s exports have been helped by the country’s currency, which has remained mysteriously weak even as the economy has emerged from the pandemic with growth stronger than in practically any other nation.

China’s currency, the renminbi, has strengthened only slightly against the dollar in recent months. It has also weakened 6 percent against the euro since the start of May, even though Europe faces a severe recession.

Foreign economists suspect the Chinese government has used its tight control of the country’s financial system to keep the renminbi weak. Brad Setser, an economist at the Council on Foreign Relations in New York, said the most likely explanation for the currency’s performance this summer was that state-owned or state-controlled Chinese banks and other financial institutions were shifting some of their immense assets, selling vast sums of renminbi and buying dollars or euros to prop up those currencies.

China’s advantages go beyond a weak currency, however. China has built a 700-city bullet train network in a decade. It also has an abundance of labor, a culture of long working hours and tightly restricted unions. Manufacturers are not as encumbered by environmental laws against pollution as in many other countries.
Robert Gwynne, a shoe manufacturing and exports specialist in Guangdong, said reviving competitiveness in the United States and elsewhere to compete with China would not be quick or easy.

“To get it back,” he said, “you’re looking at 20 to 30 years, depending on what business you’re in.”

To be sure, China’s dominance of global manufacturing could be hurt by geopolitical shifts, such as if other countries demand that companies move part of their supply chains elsewhere. The United States and Japan have begun to do so. European governments like France’s have started to move in the same direction, particularly for medical supplies. Large companies with the capacity to set up entirely new supply chains elsewhere, like Foxconn of Taiwan and Apple, are exploring alternatives.

But the pandemic, which has grounded many flights and slowed logistics, has shielded China at least temporarily from attempts to move factories to other countries. Many multinationals have cut back on investment as global demand has slowed, and so have little money to set up new operations elsewhere.

“In the middle of a global recession, companies are not going to divest unless trade barriers force them,” said Joerg Wuttke, the president of the European Chamber of Commerce in China. “Companies would rather close facilities than open up new ones.”