The New York Times | https://nyti.ms/2gwbriQ

ECONOMY

Trump’s Tough Trade Talk Could Damage American Factories

By PETER S. GOODMAN, NEIL GOUGH, SUI-LEE WEE and JACK EWING DEC. 2, 2016

HOLLAND, Mich. — While much of the American political class has been consumed with recriminations over the wrenching loss of manufacturing jobs, Chuck Reid has been quietly adding them.

His company, First Class Seating, makes recliner seats for movie theaters here at a factory on the shores of Lake Michigan. Since he bought the business three years ago, its work force has grown to 40 from 15.

But those jobs will be in jeopardy if President-elect Donald J. Trump follows through on his combative promises to punish countries he deems guilty of unfair trade.

Mr. Trump secured the White House in part by vowing to bring manufacturing jobs back to American shores. The president-elect has fixed on China as a symbol of nefarious trade practices while threatening to slap 45 percent punitive tariffs on Chinese imports.

But many existing American manufacturing jobs depend heavily on access to a broad array of goods drawn from a global supply chain — fabrics, chemicals, electronics and other parts. Many of them come from China. At Mr. Reid's factory, imports account for roughly two-thirds of the cost of making a recliner chair.

In short, Mr. Trump's signature trade promise, one ostensibly aimed at protecting American jobs, may well deliver the reverse: It risks making successful American manufacturers more vulnerable by raising their costs. It would unleash havoc on the global supply chain, prompting some multinationals to leave the United States and shift manufacturing to countries where they can be assured of buying components at the lowest prices.

"If you do this tomorrow, you would have a lot of disruption," said Susan Helper, an economist at the Weatherhead School of Management at Case Western Reserve University in Cleveland. "The stuff that China now makes and the way they make it, it's not trivial to replicate that."

Mr. Reid takes pride in using American products. His designers here in Michigan dreamed up his sleek recliner. Local hands construct the frames using American-made steel, then affix molded foam from a factory in nearby Grand Rapids. They staple upholstery to hunks of wood harvested by timber operations in Wisconsin. They do all this inside a former heating and cooling equipment factory that shut down a decade ago when the work shifted to Mexico.

But the fabric for Mr. Reid's seats arrives from China. So do the electronics in the "magic box" that enables moviegoers to control the recliner. Ditto, the plastic cup holders and the bolts and screws that hold the parts together. The motor is the work of a German company that makes it in Hungary, almost certainly using electronics from China.

Mr. Reid estimates that a 45 percent tariff on Chinese wares would raise the costs of making a recliner here by 20 percent.

Tariffs would give his factory an edge against American competitors that import even more from China. But his company would be vulnerable to competitors in Mexico, Colombia and Australia. They would be free to draw on China's supply chain and sell their wares into the American market unhindered.

"Our chair would be priced out of the market," Mr. Reid said. "If it impacts our sales, that puts jobs at risk."

Trade experts dismiss Mr. Trump's threat of tariffs as campaign bluster that will soon give way to pragmatic concerns about growth and employment. Between 1998 and 2006, the imported share of components folded into American manufacturing rose to 34 percent from 24 percent, according to one widely cited study.

International law also limits the scope of what the Trump administration can do. Under the rules of the World Trade Organization, the United States cannot willy-nilly apply tariffs. It must develop cases industry by industry, proving that China is damaging American rivals through unfair practices.

Talk of across-the-board tariffs is "pure theater," said Marc L. Busch, an expert on international trade policy at Georgetown University in Washington. "It's impossible to do. It violates the rule of law."

But Mr. Trump has suggested taking the extraordinary step of abandoning the W.T.O. to gain authority to dictate terms. His successful strong-arming of Carrier, the air-conditioner company, which agreed to keep 1,000 jobs at a plant in Indiana rather than move them to Mexico, attests to his priorities in delivering on his trade promises.

The people advising Mr. Trump on trade have records of advocating a pugnacious response to what they portray as Chinese predations.

There is Dan DiMicco, the former chief executive of the American steel giant Nucor, who has long advocated punitive tariffs on Chinese goods. There is Peter Navarro, a senior policy adviser and co-author of a book titled "Death by China: Confronting the Dragon — A Global Call to Action."

In an email on Friday, Mr. Navarro, the Trump transition team’s economic adviser, said that imposing steep tariffs on China was an essential step to begin to address the American trade deficit with China, which reached $365 billion last year. He blamed Chinese trade practices for “destroying entire industries, hollowing out entire communities” and “putting millions out of work.”

But Mr. Navarro also cast the threat of tariffs as an opening gambit in a refashioning of trade positions.

“Tariffs are not an end game but merely one of several negotiating tools to bring our trade back into balance,” he said, adding that Mr. Trump’s administration would do so “in a measured way.”

Mr. Navarro’s co-author, Greg Autry, a professor at the University of Southern California, said he assumed the Trump camp was dead serious about its threats to impose tariffs on China. The goal is to force manufacturers to come back to the United States as a condition of selling into the American market.

A full-on trade war between the world’s two largest economies would cost American jobs in the immediate term, Mr. Autry said, but eventually millions of new ones would be created as the United States again hummed with factory work.

“We moved our supply chain to Asia in about two decades,” he said. “You certainly can do it in the U.S. a whole lot faster. It’s going to take a few years, but it’s going to be a much better America.”

Even if factory work does return to the United States, though, that is unlikely to translate into many paychecks. As automation spreads, robots are primed to secure most of the jobs.

At Mr. Reid’s factory, talk of a bountiful future through trade barriers resonates as dangerous nonsense. Mr. Reid has a business to run in the here and now. His customers are waiting for product. He must be able to tap the supply chain.

“You can’t just turn your ship around and bring that stuff back,” he said.

In threatening tariffs, Mr. Trump is wielding a blunt instrument whose impacts are increasingly easy to evade by sophisticated businesses with operations across multiple borders. The geography of global trade is perpetually being redrawn.

In China, factory owners, casting a wary eye on Mr. Trump, are accelerating their exploration of alternative locales with lower-wage workers across Southeast Asia and even as far away as Africa.

In Vietnam, entrepreneurs are preparing for a potential surge of incoming investment from China should Mr. Trump take action.

In Europe, factories that sell manufacturing equipment to China are watching to see if Mr. Trump will unleash trade hostilities that will damage global growth.

“Money and goods will always find their way, regardless of what barriers you put up,” said Ernesto Maurer, chairman of SSM, a Swiss maker of textile machinery that operates a factory in China. “You just make it more difficult and more expensive.”

The China Supply

In the southern Chinese city of Guangzhou, Jiang Jiacheng exudes confidence that China will continue to serve as the factory floor for the world — with tariffs or otherwise.

His company, the Guangzhou Shuqee Digital Tech Company, makes movie chairs, exporting about 20 percent of its wares to the United States. It is an exemplar both of China’s manufacturing prowess and of the conditions that make it a competitive threat.

Mr. Jiang pays his factory workers $290 a month. They work six days a week. Lax environmental rules allow him to dispose of pollutants cheaply.

The total cost of making one of his best-selling products, a cloth-lined movie chair, runs $72. He sells it for $116 to wholesalers who export to the United States.

Back in September, Mr. Jiang gathered with other Chinese movie chair manufacturers to discuss the alarming statements coming from Mr. Trump. The consensus view was not to worry.

“Once he takes up the post, he will certainly return things to the normal state,” Mr. Jiang said.

Still, he has a backup plan. Even before President Trump entered the lexicon, Mr. Jiang was exploring a transfer of some of his work to lower-cost places like Vietnam.

His company would not be the first to make the journey.

A dozen years ago, the United States Commerce Department accused China of dumping wooden bedroom furniture at below cost. It imposed protective tariffs.

For Lawrence M. D. Yen, who had a furniture factory in southern China, that was the impetus to move to Vietnam. Labor costs were cheaper.

Today, Mr. Yen’s company, Woodworth Wooden Industries, operates a factory in Cu Chi, on the outskirts of Ho Chi Minh City, a district best known for the elaborate tunnels used by Vietcong guerrillas in their battles against American forces.

This former hive of combat is now the workplace for 5,000 people making sofa beds, recliner chairs and bedroom furniture. Three-fourths of the products are destined for the United States, including Las Vegas casino resorts like Mandalay Bay and the MGM Grand.

Woodworth’s plant churns out more than 10,000 three-seater sofas each month. This year, the company opened a second Vietnam factory.

Arithmetic gives Mr. Yen confidence that Mr. Trump’s talk will be muted by the realities of the marketplace. Brands that deliver factory-made goods to American retailers have leaned heavily on Asian suppliers to secure low prices.

In pledging to bring manufacturing back, Mr. Trump is effectively pitting the interests of a relatively small group of people — those who work in factories — against hundreds of millions of consumers.

“The retail industry now employs an awful lot more people than apparel industries ever did,” said Pietra Rivoli, a trade expert at Georgetown.

Seven years ago, the Obama administration accused China of unfairly subsidizing tires. It imposed tariffs reaching 35 percent. A subsequent analysis by the Peterson Institute for International Economics, a nonpartisan think tank, calculated the effect: Some 1,200 American tire-making jobs were preserved, but American consumers paid $1.1 billion extra for tires. That prompted households to cut spending at retailers, resulting in more than 2,500 net jobs lost.

The TAL Group claims to make one of every six dress shirts sold in the United States. It produces finished goods for Brooks Brothers, Banana Republic and J. Crew, operating 11 factories worldwide. If Mr. Trump places tariffs on China, the company will accelerate its shift to Vietnam, said TAL’s chief executive, Roger Lee.

If that trade is disrupted, the work would flow to other low-cost countries like Bangladesh, India and Indonesia. Mr. Lee can envision no situation in which the physically taxing, monotonous work of making garments will go to the United States.

“Where are you going to find the work force in the U.S. that is willing to work at factories?” Mr. Lee said.

Supplying the Suppliers

Horgen, a Swiss village on the shores of Lake Zurich, seems far removed from the gritty industrial zones of Asia. With its gingerbread homes and mountain views, it looks more like a resort.

But Horgen is home to SSM, a company that has become an important supplier to Asia. Its machines turn polyester and other synthetic fibers into custom-designed threads. If the rise of textiles in Asia has been a gold rush, this Swiss company has been among those cashing in by making the picks and shovels.

Workers at the factory earn roughly 6,000 Swiss francs ($5,940) a month — some 10 times what SSM pays its workers at its Chinese factory. It makes its most sophisticated components in Switzerland and at another plant in Italy. It uses China for lower-grade machines.

The company sells virtually all of its products abroad, chiefly in Asia. It buys metal parts from the Czech Republic and Poland, electronic components from Malaysia, and electric motors from an American company that makes them at a factory in India. Another American company supplies software.

“There is not a single machine that we have that we are able to build with materials from one country,” said Mr. Maurer, the SSM chairman.

If the United States were to impose trade barriers on China, that might slow Chinese demand for Swiss-made textile machinery. That would potentially reduce Swiss purchases of American goods and services.

But Mr. Maurer struggles to see how this would create any jobs in the United States. The American textile industry is small and increasingly dominated by robots. The rest of the world holds billions of hands willing to work cheaply.

“Someone else will pick up the business,” Mr. Maurer said. “These markets are very fast.”

But the textile and apparel trades are relatively simple businesses. If the cost of making trousers becomes less appealing in China, a room full of sewing machines in Cambodia can quickly be filled with low-wage seamstresses.

Industries involving precision machinery are not so easily reassembled somewhere else. An abrupt change to the economics would devastate factories that could not quickly line up alternative suppliers.

American automakers are especially dependent on the global supply chain. Between 2000 and 2011, the percentage of imported components that went into exported American-made vehicles grew to 35 percent, from 24 percent, according to the Organization for Economic Cooperation and Development.

At EBW Electronics in Holland, Mich., workers in lab coats tend boxy soldering machines as they make circuitry for LED lights that go into cars. It buys tiny parts and slots them into circuit boards, which are sold to major automakers. Some 80 percent of the components are imported from China.

Even that number fails to capture the degree to which the company — and its 240 workers — depend on unfettered trade.

Pat LeBlanc, the chairman, pointed to a nib of metal on a circuit board. The silicon was extracted at a plant in Minnesota, then processed into a thin wafer at another factory in Massachusetts. The wafer was shipped to China for testing, cut into pieces at another Chinese factory, and then delivered to the Philippines for a chemical process. Then it went back to China to be put onto a reel that can be inserted into soldering machines here in Michigan.

“It literally is a global supply chain,” Mr. LeBlanc said.

Mr. Reid, the owner of the theater seating company, could not imagine having to buy everything from American suppliers.

Buying upholstery domestically would raise his fabric costs as much as 40 percent.

“All the componentry, all the cords, it all comes from China,” he said. “I don’t know that you could ever get all of that made in the United States. Some of these industries have just been abandoned.”

He wandered into the paint shop, where a worker was spraying chair backs. He picked up a can of paint and read the label: “Made in the U.S.A., with Global Materials.”

Peter S. Goodman reported from Holland, Mich.; Neil Gough from Ho Chi Minh City, Vietnam; Sui-Lee Wee from Guangzhou, China; and Jack Ewing from Horgen, Switzerland. Julie Hirschfeld Davis, Zhang Tiantian and Emily Feng contributed reporting.

A version of this article appears in print on December 3, 2016, on Page A1 of the New York edition with the headline: Tough Talk on Global Trade Hits Close to Home.