



**Case Study**

# US-China Trade Tensions: How a Building Products Manufacturer is Thriving Across Borders with Diversified Production

A US based company manufacturing doorknobs is concerned about the US-China trade war and potential impact on its operations. The company manufactures most of its products in China and directly exports to the US. The company required a location analysis for available options in China as well as alternate markets in Asia to shift production with an emphasis on containing the tariff exposure. Cambodia, India, Indonesia, Philippines, Malaysia, Myanmar, Thailand, and Vietnam were examined as potential alternatives.

## Challenges

Current US tariffs on products from China have forced US based company to look for alternate manufacturing destinations. Several countries in South and Southeast Asia competed closely as a China+1 location.

Due to local complexities the client was unsure of where to base their manufacturing operations as well as deciphering large scale data related to the local markets.

## Solutions

Keeping the client's costs and concerns in mind, Dezan Shira's Business Intelligence team conducted comprehensive research on tariff exposure and analyzed 8 countries - including China, Cambodia, India, Indonesia, Philippines, Myanmar, Thailand, and Vietnam. The team assessed the data using qualitative and quantitative analysis, providing the client with a thorough understanding of their tariff exposure and examined potential Asian locations for the relocation of a manufacturing plant component as part of the China+1 strategy.

## Impact

Based on the Business Intelligence team's study, the client was able to understand their tariff exposure and look at how their products could qualify for minimal tariffs under the relevant free trade agreements applicable to the respective countries in Asia.

Further, the client commissioned a country benchmarking study assessing various factors such as business environment, labor, and infrastructure for relocating part of their manufacturing operations.

## **CHALLENGES:** Geo-political challenges require re-engineering of supply chain

The US-China trade war and subsequent geopolitical tensions have forced businesses to consider diversifying their China operations and adopting a China+1 strategy or alternatively

relocate manufacturing operations to other countries. This has affected several industries ranging from textiles to electronics. While Asia offers several alternate manufacturing locations,

deciding on one can be challenging and involves analyzing a host of factors such as the business environment, labor, logistics, infrastructure, taxation, suppliers and so on. Given these complexities involving local markets as well as various legal

texts in the relevant free trade agreements, the client required a clear understanding of their tariff exposure to compare possible alternate manufacturing locations should their tariff exposure be significant.

## **SOLUTIONS:** Comprehensive study researching country-specific considerations

Our study included a comprehensive evaluation of the clients manufacturing process and which products are subject to US tariffs. The team shortlisted relocation options to 7 countries with the lowest tariff exposure. We also presented additional considerations such as business environment, taxation, labor and so on, beyond tariff analysis to help the client decide which location would be ideal for relocating their manufacturing operations. The findings revealed that the client would face significant tariff exposure if it continued manufacturing in China. Our research revealed that the client would need to carry out manufacturing in an alternate market to qualify for minimal tariffs.

To collate such extensive information, Dezan Shira's Business Intelligence team used a multi-pronged approach. Quantitative data was sourced from a variety of open and paid local government databases, market, and consumer data sources, as well as publications from international financial and research institutions.

We also conducted several primary research projects to obtain practical inputs from our network of local government officials, existing businesses, and industry experts - ensuring that the final output was in line with the client's objectives.

## **IMPACT:** Client gains an in-depth understanding of shortlisted locations and ROO guidelines

The study found that Thailand, Philippines, India, Indonesia, Cambodia, Malaysia, and Myanmar were all eligible for tariff benefits with limited exposure to client's products. However, to make an informed decision, the team proposed a country benchmarking study where the client would look at several additional factors. For example, while Cambodia's operations costs were minimal, its infrastructure was not competitive compared to Malaysia's. However, while Malaysia's infrastructure was unmatched, operational costs in comparison to other countries was significantly higher.

Our evaluation allowed the client to reassess their manufacturing operations and look at alternative locations in the long term as well as look at proposed manufacturing rules that satisfy rules of origin (ROO) provisions. This involved looking at what would be required for the company to relocate including changes in inputs needed in the manufacturing process.

**The study allowed the client to have an in-depth analysis of their options for relocation based on collected quantitative data as well as qualitative local factors.**





# Your Partner for Growth in Asia



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