

FOCUS

From small things, trade empires rise – or fall

America's de minimis rule waives duties on small packages and has been boon for Chinese e-commerce firms, but a legislative backlash could spoil the party

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Like many entrepreneurs handling exports in the business powerhouse that is Guangdong province, Victor Wang's freight company has gone into cross-border e-commerce.

Moving away from placing large containers of bulk cargo on overseas-bound ships, Wang over the past year has embraced a sea change in volume and scale that has proved lucrative.

Now, Wang sends small parcels – usually containing a jacket, two pairs of earrings or a rice container – via air directly from local factories to shoppers in the United States.

The company's dramatic shift seemed inevitable: its customer base comprising hundreds of thousands of factories in the region had already been flocking to e-commerce.

This follows the dwindling wholesale orders from foreign retailers, especially American ones, resulting from punitive tariffs imposed by former US president Donald Trump.

Then came efforts by Joe Biden, Trump's successor, to get US companies to relocate their supply chains outside China.

"Foreign trade, gloomy as it is overall, actually has little impact on cross-border e-commerce," Wang said, noting the US was the leading destination for these parcels "by a large margin".

A look at recent Chinese government data illustrates how crucial small-item trade has become in shoring up a decline in the country's traditional export channels, with such parcels surpassing a quarter of a trillion dollars in value annually.

At the heart of the growth – and controversy – lies a long-time American trade provision known as the de minimis rule.

How the de minimis rule might change will be a critical issue to watch in 2024

SHENG LU, UNIVERSITY OF DELAWARE

It allows companies to ship packages to the country worth under US\$800 without paying import duties, taxes or fees, or undergoing tedious screening procedures. In 2016, the amount was raised from US\$200 to relieve burdens on American customs officials.

However, in the ensuing years, marked by antipathy towards the world's second-largest economy, US critics have claimed the rule has given Chinese e-commerce platforms and sellers an unfair advantage and squeezed out American retailers.

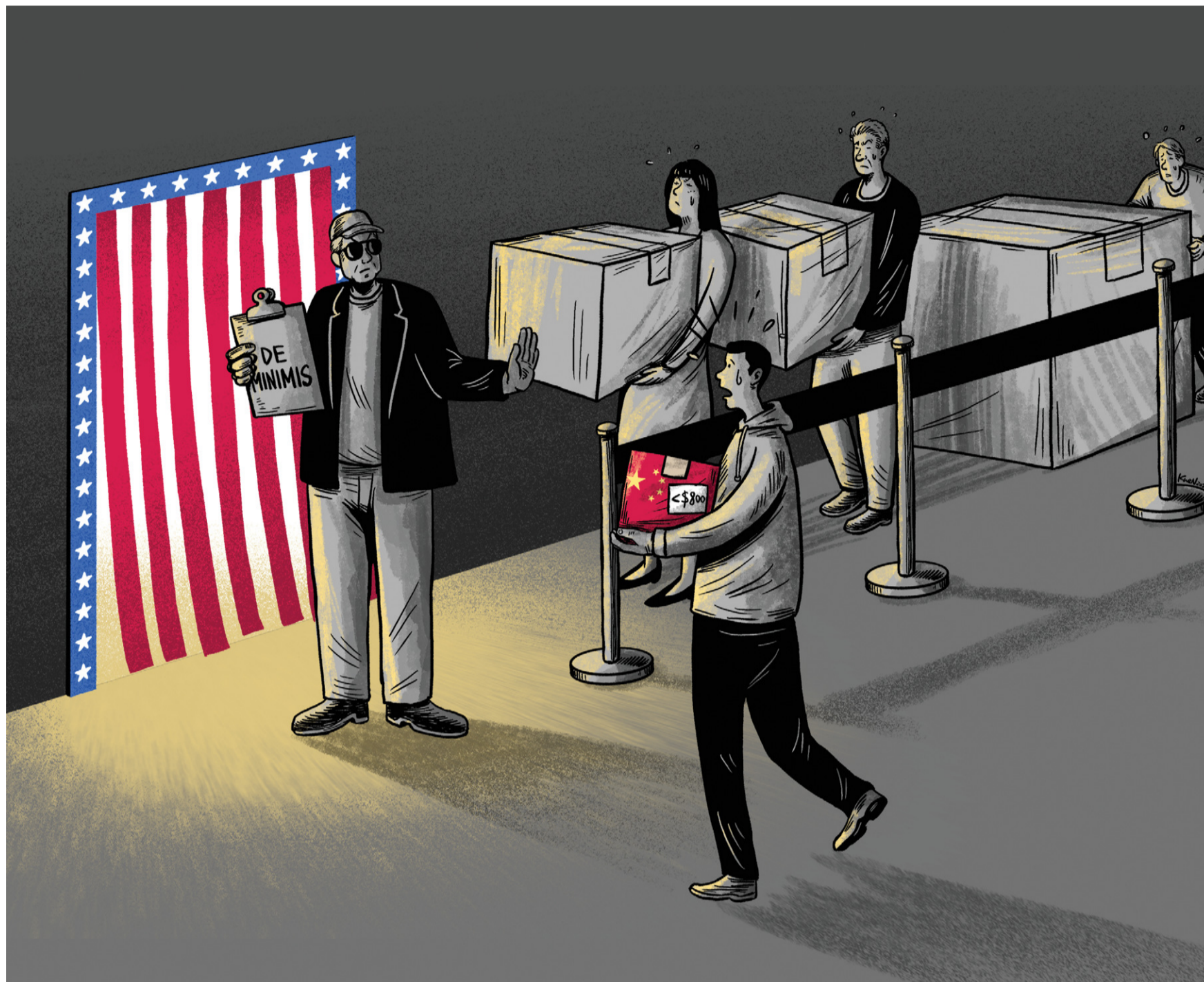
That puts China's booming e-shopping industry and, by extension, countless manufacturing plants in the country, at risk of huge financial loss, especially as American momentum gathers to overhaul the century-old trade rule.

Two bipartisan bills introduced in the US Congress call for lowering the thresholds or eliminating the provision to keep shipments from specific countries such as China from benefiting.

"How the de minimis rule might change will be a critical issue to watch in 2024," said Sheng Lu of the University of Delaware.

Meanwhile, far from Washington, Annie Yuan, a Beijing-based e-commerce veteran, has enjoyed some of her busiest days ever.

Every day, Yuan's company handles customs clearance and "last-mile delivery" for hundreds of thousands of packages originating in China and bound for the US and Canada. The company is just one of many



logistics firms contracted by major e-shopping platforms in the US, including fast-growing Chinese-backed companies Temu and Shein.

"The purchasing power of US consumers is quite impressive," said Yuan, who has worked in cross-border e-commerce for 10 years.

Parcel volumes exploded after Temu's high-profile launch in 2022, when its slogan "shop like a billionaire" entered the daily lives of American consumers, evidenced by its landing pricey ad slots last year during the National Football League's annual Super Bowl, a broadcast that drew 115.1 million viewers.

For many products on Temu worth under US\$10, door-to-door delivery over a few kilometres in the US accounted for most of the total price shoppers paid.

Production expenditures plus freight costs within China as well as from the country to the US could be kept to a minimum owing to massive manufacturing capacity in the "world's factory" and the platform operating an efficient supply chain, Yuan said.

In 2023, US Customs and Border Protection cleared about one billion de minimis shipments for the financial year, a 46 per cent surge compared to a year earlier, the agency said.

And rapidly expanding Temu and Shein are hardly alone.



Congressman Mike Gallagher claims de minimis allows goods made by forced labour to enter the US.

19.6%

Chinese exports via small e-commerce parcels increased by this much last year, reaching a total value of 1.83 trillion yuan

Traditional players like Amazon and AliExpress still retain market shares, with short-video platform TikTok also entering the battleground.

AliExpress is an online retail service owned by Alibaba, which also owns the Post.

By any measure, these shipments are becoming indispensable to China's economy, of which exports make up nearly 20 per cent.

Weak global trade amid high inflation hit its export sector hard in the past year, as did receding demand for goods in the post-coronavirus era.

To compound the challenge, the West has turned to "de-risking" supply chains away from China, with multinational corporations in turn implementing strategies that no longer rely solely on the country for production.

Exports to the US last year recorded their steepest decline in almost three decades. Yet China's e-commerce exports have been booming.

In yuan terms, the country's overall exports last year grew by a modest 0.6 per cent compared to a year earlier.

But those from small e-commerce parcels increased by 19.6 per cent, reaching 1.83 trillion yuan (HK\$1.99 trillion) and comprising more than 7 per cent of total exports, according to preliminary Chinese customs estimates.

The country's e-commerce exports have "become a new foreign trade format with the fastest development speed, the greatest potential and the strongest driving effect", the Communist Party mouthpiece People's Daily said in an article last week.

In Guangdong, which accounts for one-third of the industry's overall turnover in China, the total value of exports and imports via e-commerce last year was 57 times that of 2015, according to provincial government data.

Export expansion via e-commerce came up at an annual central government conference last December.

Many local governments have pledged to bolster development, including through building more warehouses for small-parcel exports.

Of the total number of e-commerce packages shipped overseas in 2022, more than one third were destined for the US,

and one third were categorised as "clothing, shoes and bags", a customs report revealed.

The proliferation of US-bound shipments occurred as the Uyghur Forced Labour Prevention Act, which seeks to protect the ethnic minority, dented China's overall garment exports to the country.

Forced-labour allegations in Xinjiang led to the American law taking effect in June 2022. In essence, it bans imports of products with any input from the far-western region that is home to the mostly-Muslim Uyghurs.

Temu is doing next to nothing to keep its supply chains free from slave labour

MIKE GALLAGHER, REPUBLICAN CONGRESSMAN

Beijing has vehemently denied that any human rights abuses are taking place in Xinjiang.

Complaints in the US soon followed, alleging the de minimis rule was allowing the entry into the country of products made with forced labour.

In June last year, US senators Bill Cassidy and Tammy Baldwin unveiled the De Minimis Reciprocity Act to bar Chinese exports from "exploiting customs

Illustration: Lau Ka-kuen

procedures that allow duty-free entry into the US".

"A trade loophole is allowing Chinese companies to import goods in the US with no oversight, letting them bring in cheap, counterfeit goods that undercut American manufacturers and traffic drugs into our communities," Baldwin said.

The Wisconsin Democrat said the bipartisan bill would "close this loophole" and "help ensure Americans are not supporting goods made with forced labour". Days later, US senators Marco Rubio and Sherrod Brown introduced the Import Security and Fairness Act, proposing to end de minimis treatment for goods from China and Russia.

The same month, a congressional select committee on the Chinese Communist Party published a report saying Temu and Shein were likely responsible for more than 30 per cent of all packages imported to the US under the de minimis provision.

"These results are shocking," said committee chairman Mike Gallagher, a Wisconsin Republican. "Temu is doing next to nothing to keep its supply chains free from slave labour."

"Temu and Shein are building empires around the de minimis loophole in our import rules, dodging import taxes and evading scrutiny on the millions of goods they sell to Americans."



Temu told the Post its growth did not depend on the de minimis policy, ascribing its rapid expansion and market acceptance to supply-chain efficiencies and operational proficiencies.

"We are open to and supportive of any policy adjustments made by legislators that align with consumer interests," Temu said.

"We believe that as long as these policies are fair, they won't influence the outcomes of competitive business dynamics."

A Shein spokeswoman said the company was working closely with industry peers and policymakers to help reform de minimis.

[US consumers] want cheap stuff, especially as inflation has been a big problem

ANDY TSAY, SANTA CLARA UNIVERSITY

"We believe the exemption needs a complete makeover, which is critical to holding all retailers accountable for responsible business practices," she said.

Despite bipartisan support for the bills, analysts said election-year politics, coupled with a divided Congress facing an already busy agenda, would make final passage formidable.

Lu said it was "highly uncertain" change would come. "Not everyone agrees on how to reform the de minimis [rule]," he said. "Furthermore, US e-commerce businesses and influential logistics companies that benefit from the de minimis rule may oppose attempts to revoke the benefits they currently enjoy."

And policymakers might lack the data to support rule changes and evaluate the impacts, as de minimis shipments were exempt from customs review, Lu added.

Andy Tsay of Santa Clara University said the election year made it tough to predict if any such laws would be passed, even if such an outcome were widely desired.

"The thing about US consumers, if you asked them directly, they would say, 'yes, we're opposed to forced labour, yes, we want to be tough on China,'" Tsay said.

"But they also want cheap stuff, especially as inflation has been a big problem in the US in the past two years."

"When politicians make decisions on whether something helps them get re-elected, they have to figure out the differences between what US customers say they want and what they actually want," he added.

Eliminating de minimis could double costs for American small businesses and consumers and require US customs to hire 22,000 additional personnel, according to the National Foreign Trade Council, an advocacy group.

Looming legislation aside, businesses like Yuan's are already confronting obstacles arising from new export tactics.

Since December, Yuan has been warning her clients about potential delays in package clearing and delivery.

US customs commenced stricter scrutiny of de minimis packages last month. Now, when a flight arrives at a port, cargo movement is not permitted until customs personnel are on site, reviewing the information and placing any necessary holds.

"The new customs procedure just started, so we're still observing the impacts," Yuan said. "We can only say that it will definitely affect logistical efficiency."

More uncertainties hinge on the fate of the two Senate bills. Meanwhile, Trump, the Republican front runner in the US presidential race, has vowed to impose a 10 per cent tariff on all imported goods if he won the White House again.

"It's very unclear for us now, and to be honest, this is beyond our control," Yuan said, calling the matter "mainly for the largest stakeholders to lobby".

"And if lobbying doesn't work, [de minimis rule changes] would definitely affect the entire industry chain."