Metalworking

Manufacturers Plan Supply-Chain Adjustments as Tariffs Loom

Kip Hanson | Feb 04, 2025

President Trump, who described "tariffs" as the "most beautiful word in the dictionary" while seeking a second term in the White House, has suggested a variety of ways he might use them to achieve political and economic goals.

Now, as his new administration begins imposing the levies, manufacturers are evaluating the initial results while watching for clues to which additional imports might be subject to them and how large they might be. Many are also making ***contingency plans*** to protect their bottom lines from fallout.

General Motors CEO Mary Barra, for example, assured investors when the automaker reported fourth-quarter earnings that there are "several levers" that executives can pull to adapt to tariffs on imported supplies—or even finished products—including those shipped from Mexico and Canada, where 25 percent tariffs planned for Feb. 4 were delayed for a month.

Among those levers is moving some production to the U.S.—one of the outcomes that tariff supporters hope to achieve more broadly, arguing that it would create new American jobs, buoy the country's economy and ***make supply chains more reliable***.

Opponents, however, argue that tariffs are nothing more than taxes on the U.S. consumer, since they're paid by the U.S. businesses importing goods and, typically, passed on to buyers.

In 2021, economists from the U.S. Tax Foundation examined the tariffs on washing machines, solar panels, aluminum, steel and goods from the European Union and China imposed in 2018 and 2019.

The nonpartisan group said U.S. firms and end consumers bore the entire burden of tariffs, estimating a net loss to the U.S. economy of ***$16 billion annually***, including more than $114 billion in losses to firms and consumers tempered by increases in government revenue and small benefits for protected producers.

Using a slightly different methodology, the organization also found a "nearly complete pass-through for U.S. tariffs," adding that they "continue to be almost entirely borne by U.S. firms and consumers."

The question then becomes, how did we get here? Why are we importing so many goods in the first place, and why are tariffs being considered?

Most Favored Nation

In the case of China, the U.S had a sizable trade deficit—meaning it imported more from the country than it exported—even before President Bill Clinton signed a bill granting China permanent normal trade relations, then known as Most Favored Nation (MFN) status, in October 2000.

Twelve years later, the Massachusetts-based National Bureau of Economic Research ***published a study*** stating that “policy-related employment losses coincide with a relative acceleration of U.S. imports from China, the number of U.S. firms importing from China, the number of Chinese firms exporting to the U.S., and the number of U.S.-China importer-exporter pairs.”

In 2014, the bureau published a ***second paper***, stating that the U.S. had lost approximately 2.4 million manufacturing jobs due to rising Chinese imports.

Then-President Barack Obama attempted to counter by imposing targeted tariffs, primarily as anti-dumping measures and to counteract unfair trade practices.

Researchers found, however, that the threat of tariff hikes in general led to even greater employment losses due to suppressed job creation and exaggerated job destruction.

The Rise of Protectionist Trade Policy

In his first term, President Trump went further, imposing broad tariffs on China, which his successor, President Joe Biden, kept in place.

Trump has now ramped them higher: Along with the delayed tariffs on Canadian and Mexican goods, he has imposed an additional 10 percent levy on Chinese imports.

The tariffs on goods from China, Canada and Mexico alone could shrink U.S. economic output by 0.4 percent and increase taxes by $1.1 trillion between 2025 and 2034, the U.S. Tax Foundation says.

Data supports this argument: The tariffs levied between 2018 and 2019 on products valued at approximately $380 billion resulted in nearly $80 billion worth of new taxes on Americans, “amounting to one of the largest tax increases in decades,” the Tax Foundation says.

Facing such cost increases, American companies might say enough is enough, pull back on Chinese imports, and begin investing in domestic production facilities. Once they train the workers needed to replace those lost over the past 25 years, they could be well on the way to delivering what tariff supporters describe as a “Golden Age of Manufacturing.”

Less optimistic analysts worry that American manufacturers will continue to face an uphill battle and should therefore focus on investing in the technology needed to do more with less—namely, ***automation***, advanced machine tools and the increasingly well-educated technical workers required to operate them.

Spiking Anxiety About Trade

Already, uncertainty about what comes next is clouding the economic outlook.

A recent survey by the National Association of Manufacturers (NAM) shows that "trade uncertainty ranked as the top concern of nearly 70 percent of large companies in the last three months of 2024" and "among companies of all sizes, 56 percent cited it as a key worry, up from just 36 percent in the prior quarter."

That's a lot of uncertainty. Some companies have responded by "frontloading" their purchases.

In January, Chinese officials said exports the month before had surged to record levels in response to worries of a trade war between the world's economic superpowers, Reuters reported. Granted, many of these products are apparel, toys, furniture and electronics, but what about steel and aluminum? Does it make sense to frontload these and other raw materials?

Let's look at the latter. In 2022, the Congressional Research Office (CRO) reported that, right around the time China won permanent normal trade relations, the U.S. ranked as the world's largest producer of primary aluminum.

By 2021, however, "the United States accounted for less than 2 percent of global primary aluminum production," and most of the rest had gone to countries with comparatively low energy costs, including China (roughly 50 percent), India, Canada, Russia and the United Arab Emirates.

The good news? The United States has become a major producer of secondary aluminum, i.e., recycled products like beverage cans, die castings, and some sheets and plates, accounting for 75 percent of domestic supply.

Waiting for 'Clarity'

The bad news? The U.S. and Canadian aluminum industries are "highly integrated, with more than 75 percent of Canadian production going to the United States, while roughly half of U.S. downstream products are exported to Canada."

Additionally, the U.S. has only one active smelter that produces aluminum of sufficient purity for use in military aircraft, as well as lightweight armor plating found in many ground defense and weapon systems, according to the Congressional Research Office.

As for steel, the U.S. produces only 5 percent of the world's supply, compared with nearly half in 1950, according to statistics from the World Steel Association cited by Vox.

China is currently the leader, producing 67 percent, followed by India at 12 percent and Japan at 7 percent, a state of affairs that influenced Biden's decision to block the sale of storied manufacturer U.S. Steel to Japan's Nippon Steel.

So what impact will additional U.S. tariffs have on the market? For U.S. manufacturers, it's a game of wait and see, for now.

"We are working across our supply chain, logistics network and assembly plants so that we are prepared to mitigate near-term impacts," GM's Barra said. "What we won't do is spend large amounts of capital without clarity."

How is your company preparing for potential tariffs on raw materials from overseas? Tell us in the comments below.

