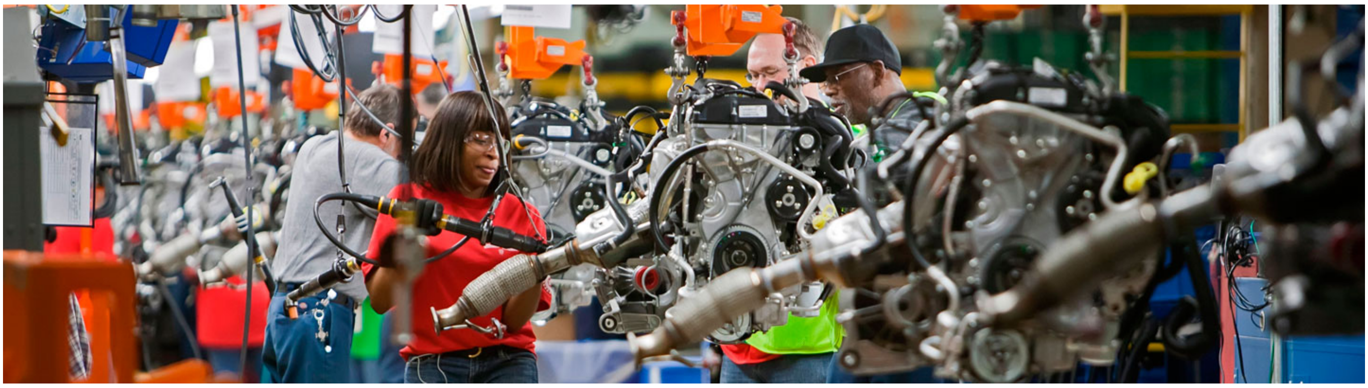
MSC

BETTER MRO



Supply Chain

The Effect of Tariffs on U.S. Manufacturing

Tam Harbert | Sep 10, 2019

It's been over a year since the first shots were fired in what has become a multifront trade war. Increasingly, experts say that companies should plan on trade hostilities for the long haul. We talk to industry watchers and management consultants about how companies can deal with the current round of tariffs, the importance of risk planning and how a new NAFTA might help U.S. manufacturers.

Despite the hope that things could return to normal soon, that's not likely, says Omar S. Nashashibi, founding partner of The Franklin Partnership LLP and head of government relations for One Voice, the advocacy program of the ***Precision Metalforming Association*** and the ***National Tooling and Machining Association***.

"Companies have been slow to think of this as the new reality," says Johan Gott, a principal at management consulting firm ***A.T. Kearney***.

The trade war doesn't seem to be having the hoped-for effect of bringing manufacturing back to America. In a recent U.S. Chamber of Commerce survey of large U.S. companies manufacturing in China, 40 percent said they were planning to, or already had, shifted manufacturing to other offshore locations such as Vietnam, India and Malaysia, ***according*** to *Forbes*.

As for small and midsize manufacturers in China, they are typically serving Chinese customers, and so are unlikely to move, adds Nashashibi. Others that import goods from China are adopting a "China-plus" strategy, he says, which means they are developing second, non-Chinese, sources.

Meanwhile, there were more tariffs imposed across several regions over the summer.

Decoding USTR Section 301: More China Tariffs

In September, the U.S. added 10 percent tariffs on $200 billion of imports of various kinds from China and threatened to increase that to 25 percent in January if no deal is reached with China.

The new tariffs cover a wide array of consumer goods such as food and apparel, but they also include more industrial items. Among them are chemicals; various oils and gases; rubber; products derived from iron, steel and other metals; industrial machinery; and vehicles and vehicle parts.

Additional tariffs on Chinese imports kicked in on Sept. 1, although some that would have affected the

Christmas shopping season were delayed until Dec. 15. China retaliated with its own tariffs on U.S. exports, to which the U.S. responded by increasing the tariffs on another group of goods to 30 percent, says Nashashibi. Unless something changes, those kick in on Oct. 1.

"That's another layer of disruption" that could have a substantial impact on capital equipment purchases, Nashashibi says. Last year, the U.S. imposed 10 percent tariffs on $200 billion of Chinese imports above and beyond the tariffs on aluminum and steel. Then in May 2019 tariffs were upped to 25 percent. Then in September, U.S. tariffs increased by another 5 percent.

"A lot of companies already budgeted the money and planned financing for that equipment at the lower 10 percent or even the 25 percent," Nashashibi says. Now they have to adjust to 30 percent.

Meanwhile, in August, President Donald Trump officially declared China a currency manipulator, which "is actually a big deal," says Nashashibi. The declaration opens the door for U.S. companies to sue Chinese companies on the basis of currency manipulation being an illegal subsidy.

If they win, they can ask for the imposition of countervailing duties on the Chinese imports.

Some companies have been positively affected by the trade war. Read "Amid Tariffs and Trade War, Manufacturing Shops Gain New Business."

Trade War Games and How to Plan for Rapid Change

The best way for a business to survive today's chaotic trade environment is to develop game plans for different scenarios, says Johan Gott, principal at A.T. Kearney. Just as the Pentagon prepares for the fight by playing war games, companies can prepare through "trade-war gaming."

However, that requires a system for quickly assessing value-added risk, which is missing at many businesses.

"It has been very surprising to us to see that companies do not have a clear and transparent picture of what new tariffs mean until probably a week or two after those tariffs hit," Gott says.

Building such a system isn't easy, because companies usually don't have the data they need, or at least not in the ways they need it, says Gott. But it's worth the investment.

"The damage associated with being two weeks behind your competitors in mitigating the impacts of tariffs can be substantial," he says. They might lock up all the alternate sources of supply, for example.

Why aren't companies better prepared? Gott thinks it's at least partly because they have no institutional memory of a trade war.

The last 30 years have been all about free trade and falling tariffs. While there were limited steel tariffs during the second Bush administration, "the last time there was a real trade war was in the 1980s against Japan during the Reagan administration," Gott says.

Is a New NAFTA Coming This Fall?

One ray of hope is for the United States–Mexico–Canada Agreement, also referred to as the "new NAFTA," to be approved by the U.S. Congress this fall. House Speaker Nancy Pelosi is working hard to deliver the Democrat votes needed for approval, notes Nashashibi.

Although manufacturers' businesses are still strong, they worry about a coming recession. Approval of the new NAFTA would increase their confidence in the economy, he says.

"It's more of a symbolic hope that all these tariffs might end in solutions," he says. "Approval of the new NAFTA could alleviate many of the concerns of manufacturers over further disruptions in their supply chains."

EU Tensions on Tariffs Heat Up

"There are increasing tensions between the European Union and the U.S. that don't appear to be heading toward resolution anytime soon," says Nashashibi. Of specific importance are new tariffs the U.S. threatens to impose on EU copper-based alloys, including copper plates, brass, bronze and some nickel-based items.

> **"Approval of the new NAFTA could alleviate many of the concerns of manufacturers over further disruptions in their supply chains."**
> Omar S. Nashashibi
> Head of Government Relations for One Voice, the advocacy program of the Precision Metalforming Association and the National Tooling and Machining Association

The new tariffs result from a World Trade Organization ruling in a long-running dispute over government subsidies of large aircraft manufacturers.

The WTO ruled in the U.S.'s favor, opening the door to as much as 100 percent tariffs on these items. This could be ***a major disruption*** to U.S. manufacturers in the aerospace, automotive, defense, medical and electrical industries, according to Nashashibi.

In an August letter to U.S. Trade Representative Robert Lighthizer, the Motor & Equipment Manufacturers Association (MEMA) argued against the tariffs, noting that "U.S. alternatives are not being manufactured to the standards necessary for public safety, not available in necessary quantities or not available at all."

MEMA warned that the tariffs could encourage production to move overseas, impacting small and midsize suppliers.

How are the trade war and tariffs affecting your shop's business? Talk to your peers in the metalworking forum. [registration required]