The Newest Trade War

By Seth Barnett

It is no secret that the U.S. is in the middle of another trade war with China. New tariffs are being levied each week on Chinese goods being imported into the U.S., and China hasn't hesitated in responding with their own set of tariffs for imported U.S. goods. Over the past few months, each side has continued to add to the list of targeted goods. To date, most ordinary consumer goods that Americans associate with Chinese manufacturing, such as household items, are not directly affected. However, the consumer world has started to feel the pressure of these new tariffs and Wall Street has been floundering with each new news cycle on the subject.

In March, the White House announced the largest tax of foreign imports the nation has seen since 2016. On March 8, President Trump signed an executive order enacting broad tariffs on imported steel and aluminum, some of the largest in history. The administration's next move was to direct their attention to more commonly imported products that often carry a bigger price tag. The decision to seek out nearly $60 billion worth of goods coming exclusively from China was the first major single-country tariff decision made by the Trump administration. The overall import value was initially determined to be $30 billion, but after review, the administration decided that doubling that number would be necessary. In March, President Trump promised that these tariffs would be the first of many to come. In June, a more detailed plan that considered a multi-tiered approach was released. According to the White House, the first $50 billion in goods will be levied at 25 percent and will be split into two parts. The first part, amounting to $34 billion, bypassed the regulatory process and went into effect on July 6. The remaining $16 billion will now go through the traditional informal rulemaking process, where public comments will be assessed.

In June, as China reacted by threatening to tax many of its common U.S. imports, such as food and clothing. With this knowledge, the Trump administration has threatened to levy up to another $200 billion in imported Chinese goods this year alone. While the current number of goods stands just below 1,000, the coming weeks could see more ordinary consumer goods added to the already lengthy list.

So, what does this mean for those of us in

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the promotional advertising market? In short, nothing directly. While most products are large machinery components and many are connected to non-consumer electronics, there remains no direct impact on our industry. However, the indirect impact will be felt by most of us. This is because there are many items on this list that have to do with the machinery that helps to either manufacture or imprint promotional goods. This means that as U.S.-based manufacturers need new or replacement parts, they could face a 25 percent tax on those imported items. In turn, the cost of the finished product, over time, will increase. Also, as we have seen historically, an increase in tariffs means overall cost inflation on everything from consumer goods to promotional material. The natural reaction to the unknown is also detrimental. We can see this in everything from fuel to food cost. The more time goes by, the more significant the impact on the natural market shift.

The tariffs themselves were developed as the government's reaction to what it found to be unfair trade practices in China. This includes China's mandated marketplace barriers and export limitations based on competition. Ultimately what the administration hopes to do is to help China understand the impact these practices have on their long-term business relationship with the U.S. At present, China's reaction does not suggest that they will change their trade policies just yet. However, these levies will have an economic impact across China, first on manufacturers, then on other economic centers. Once this happens, in theory, China will consent to new trade policies and levy reduction will be assessed at that time.

The potential for our industry to be directly affected by these tariffs is ever-present. It is likely that the administration will wait to see the overall effect on the economy and the total reaction of foreign trade before an additional round of levies. Still, the possibility is present. For now, it is in our best interest to maintain business as usual. The less reactive we are, the better off we will be. It is too early to see what products will be more directly affected. What we can do is maintain confidence in our marketplace and ensure that our customers know there is no place else they will get what we provide, regardless of the possible interference of this new trade war.