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GOVERNMENT

Midterm results unlikely to move needle on trade war

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The ongoing trade war between the U.S. and China is causing uncertainty. Image credit: USFIA

By SARAH JONES

NEW YORK – Despite a power shift in the House of Representatives following the United States election on Nov. 6, trade experts do not expect the new Congress to rein in President Trump's ability to continue his tariff battle with China.

While the House of Representatives has had a Republican majority in recent years, it will now be controlled by Democrats, as the party picked up more than 30 seats in the midterm elections. During a panel at the Apparel Importers Trade & Transportation Conference on Nov. 7, an executive from the United States Fashion Industry Association said that while the House of Representatives is unlikely to repeal the president's tariffs, there could be hearings and other push back from the legislative body.

"I think it's highly unlikely that the House will move to rein in the president's tariff making authority or to repeal the 301 tariffs," said David Spooner, USFIA Washington counsel and partner at Barnes & Thornburg LLP. "But the House will make the president's life miserable.

"We're almost sure to see hearings on the product exclusion process and how it's not working and have hearings on how and why the White House decided to impose tariffs on steel and aluminum," he said.

Trade trends

With an ongoing escalation of tariff retaliations between the United States and China, there is a feeling of uncertainty surrounding trade relations, according to a panel moderated by Julia Hughes, president of the USFIA.

An upcoming meeting between Chinese president Xi Jinping and Mr. Trump on Dec. 1 has the potential to progress negotiations, but it is not clear whether this will have the ability to curb further escalations. The two leaders have had multiple rounds of discussions without coming to an agreement.

At the moment, the tariffs being placed on Chinese goods entering the U.S. is 10 percent, but that could climb to 25 percent next year.

Erin Ennis, senior vice president of the U.S.-China Business Council, said that while there is a possibility that the tariffs will not climb to this amount, there is a low likelihood the rise will be averted.

Getting goods to China has become more expensive. Image credit: Value Retail

On the China side, Ms. Ennis expects the country to extend its retaliations beyond quantitative actions to qualitative ones. For instance, it may become more difficult or a longer process for U.S. businesses to get a license to operate in the nation.

Some businesses have decided to make changes in their operations, including moving production, due to the tariffs. According to Ms. Ennis, if the trade war with China is only going to last a year, most companies will not make major shifts, and it would take about a three to five year impact for companies to make drastic overhauls.

Instead, in the meantime firms are more apt to renegotiate prices and try to share the burden of increased costs either with vendors or customers.

One of the things that companies can do is to talk about their experiences publicly, making government and customers aware of what impact tariffs are or are not having on their business.

"I think that you should hope for the best, but as companies, you probably should be planning for the worst," Ms. Ennis said.

Made in
Another issue at hand is country of origin.

John Pellegrini, USFIA customs counsel at McGuireWoods LLP, brought up the case of New Balance. A suit in California took on the athletic shoemaker's made in the U.S. claims.

With the resulting decision, New Balance agreed to only list items as made in the United States if 90 percent of the product is from U.S. producers.

New Balance faced scrutiny over its 'made in' claims. Image credit: New Balance

Country of origin is a key positioning tactic for luxury products, but growing globalization in the fashion industry is making it more difficult to differentiate the geographic source of goods.

Many nations such as Italy only require part of a good's manufacturing process to take place in their country before the product is eligible for a "made in" label. According to a report from Fashionbi, this potential for ambiguity coupled with consumers' increasing attention to the supply chain behind their purchases are pushing brands to be more transparent (see story).

Country of origin also comes into play for imports. One of the ways companies are trying to get around tariffs in China is through transshipments, where merchandise is sent to a waypoint before being sent to its final destination.

This brings up legal and customs issues.

Another strategies companies should be wary of is DDP, in which a sender covers the cost of goods until orders are received. Mr. Pellegrini said this is not the answer to company's trade issues.

For those that do manufacture in the United States, other trade issues remain.

"I'm seeing situations where people are building manufacturing facilities in the U.S., the machinery comes from China, they go to the commerce department to try to get some relief...they get no relief," Mr. Pellegrini said.

"At some point, industry in this country who try to build facilities that manufacture in the U.S.… are going to have enough," he said. "And they're going to have to go to their congressmen and representatives and say, 'Look you've got to change this. There's got to be some more rationality applied to this. I'm building a U.S. plant. I shouldn't have to pay $100,000 a month in additional duties to put that plant up.'"