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GOVERNMENT

# POV: How will President Biden's China policy impact US luxury?

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*The global consultancy Bain & Co. and Tmall recently co-released a new luxury report on China that further validates the market's post-COVID-19 significance. Image credit: Lamborghini*

By Adina-Laura Achim



The Biden administration has shown that it is willing to restart talks with China. But despite its encouraging words, the "new" foreign policy seems like the same old one that blamed China for America's economic problems, botched COVID-19 response, and even its loss of soft power in the developing world.

Regarding trade talks, U.S. trade representative Katherine Tai said, "yanking off" former President Trump's tariffs on Chinese products could unwittingly harm the American economy. In fact, the Biden administration has decided to all but ignore the economic impact of tariffs.

A 2019 study by Moody's Analytics showed how, in just over one year, the U.S.-China trade war thwarted an estimated 0.3 percent of the US economy's real GDP and nearly 300,000 jobs.

Bloomberg also presented a study by Brookings that put the country's GDP cost in a range between 0.3 and 0.7 percent during 2019.

Meanwhile, another study, commissioned by the U.S.-China Business Council (USCBC), highlights how Mr. Trump's trade war has cost up to 245,000 U.S. jobs. And CNN reports that tariffs on "Made in China" goods have cost American importers more than $82 billion so far, according to U.S. Customs and Border Protection.

In the past, luxury and retail have been strongly affected by these policies. Therefore, retail executives want to understand how President Biden's approach will impact their operations and margins.

The pandemic has created a K-shape recovery, and several industries are still underperforming and experiencing uncertainty. Volatility and financial risks will continue even under President Biden, and U.S. textile companies can expect lower profit margins in 2021.

Moreover, Mr. Biden is weakening the economy and hurting American companies by choosing to advance the trade war with China, leaving them more susceptible to hostile takeovers.

In the past, we have seen the economic power of Chinese companies and their interest in Western luxury and retail companies. As such, we expect corporate China to take advantage of the current economic situation.

At this point, even American "patriots" who believe in the resilience and exceptionalism of domestic companies must acknowledge that China's post-pandemic economy bounced back faster than America's.

Moreover, luxury consumption is booming in China, while the retail sector was one of the hardest hit in the United States. The pandemic even sunk iconic retailers such as Neiman Marcus. Under these circumstances, American firms are more dependent on China than the other way around.

"How long before Baidu buys Google? Or Tencent takes a 20-percent stake in Twitter?" asks Kenneth Rapoza, a senior contributor to *Forbes*.

China might not play by Washington's playbook, but America's behavior is not beyond reproach, either.

Instead of embracing "extreme competition" with China and investing in research & development (R&D), education and cutting-edge technologies, the U.S. outsourced R&D, promoted "nationalism" and absurd cultural wars, and lost its edge in innovation.

Washington also tried to shift blame towards China, engaging in a tit-for-tat game instead of accepting responsibility for its failures.

Nonetheless, the U.S. made a big miscalculation when it predicted that China would react like the crumbling Soviet Union. Instead of being bullied and retreating from the conflict, China retaliated with tariffs of its own, boycotts, a blacklist of American firms, bans and new regulations.

And American companies have been hurt the most. They lost business opportunities, their profits shrank, and their hard-working American employees lost jobs.

Considering the circumstances, it is evident that Washington's bipartisan bill to counter China's influence in the world will backfire again. And corporate America will pay the highest price.

It is remarkably nave to believe that global companies will jump at the opportunity to move out of China just because the government is allocating "$15 million to help U.S. companies exit the Chinese market, diversify their supply chains, and identify alternate markets."

Despite Washington's efforts, foreign direct investment in China continues to grow.

A total of "10,263 new foreign-invested companies were established in China during the first three months of the year," according to the *South China Morning Post*.

Moreover, FDI excluding financial sectors like banking, securities, and insurance increased 43.8 percent during the January-March period, year-on-year. This rise was the largest rate of quarterly growth since the second quarter of 2008, according to Ministry of Commerce data.

Foreign companies want to enter the lucrative Chinese market, not the other way around.

Even companies such as Nike Inc. and Lululemon Athletica Inc., which moved some of its manufacturing to Vietnam, are reconsidering their approach and partnering with local manufacturers.

But this is hardly surprising if we consider that China's textile industry is the largest in the world. Not to mention, the country dominates the cotton market.

This position gives Beijing immense power since it can mess up the supply chain and create significant disruptions for global retail companies. Obviously, the luxury industry is not immune to these threats.

Despite its association with "Made in Italy" and "Made in France," luxury greatly depends on China.

Exquisite fabrics such as silk, yarn of fine animal hair and wool, which are essential to luxury apparel, are produced in China.

If Beijing enacts export restrictions or tightens export controls, the luxury industry will suffer.

At this point, the U.S. should stop decrying the rise of a strong competitor and work towards becoming an innovative leader again.

The U.S. is no longer the de-facto leader of the world, but that does not mean that the U.S.-China economic race

cannot produce a stable and innovative bipolar era.

*The views expressed in this article are purely the author's.*

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