The Cost of Trump's Tariffs Will Linger For a While

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Some supporters of President Trump's higher tariffs argue that it is only a temporary strategy to force trade concessions from other countries. They depict higher U.S. tariffs as a cudgel to pressure trading partners, sustaining short-term pain for long-term gain. In fact, it will increase short-term pain only to bring on even more long-term pain.

White House economic advisor Larry Kudlow, for example, has said that Trump doesn't want "a trade war … I think this is all going to get resolved, I really believe, over time." When a long-time free trade advocate like Kudlow puts forward a rationale for protectionism, it has the clear ring of whistling past the graveyard.

Trade relationships between U.S. companies and foreign customers will not simply snap back into place. The costs of disrupting longstanding trade relations, revamping supply chains that took a long time to build, driving U.S. firms to produce outside the United States, and prompting foreign customers to shift to suppliers from other countries will not be eliminated quickly or easily, or in many cases at all.

The impact of tariffs will be faced by producers, and the people who work for them, long after the current trade war ends. Foreign and domestic customers find themselves with little choice but to build relationships with new suppliers. Most of these new relationships will be beneficial to both sides, and companies that are currently U.S. customers will maintain their new non-American suppliers rather than risk another volley of U.S. protectionism. It could take decades to build an export relationship with a customer, but it could be wiped away in the flash of a moment.

Scott Lincicome, senior fellow with the Cato Institute, has compiled an extensive list of 200 U.S. companies that are already being negatively impacted by the tariffs. The stiff tariff increases have hurt U.S. companies, big and small. The large aluminum-product manufacturer Alcoa has cut its profit forecast ranges by $500 million, citing tariffs on aluminum it imports from Canada. The California precision-part manufacturer Accu-Swiss has been forced to turn off the lights while keeping its machines on in an attempt to absorb the cost increases caused by tariffs.

This kind of impact will not simply sort itself out if and when tariffs are dropped. Many companies have been driven to re-locate operations outside the country; how quickly will they come back? Companies that build new plants or expand existing ones do so with the intention of

utilizing them for decades. That's the only way to recover the sunk costs. Otherwise, it is not worth the investment.

A good example is Missouri nail-producer Mid-Continent Steel and Wire, the last major nail supplier in the United States. Since being hit by the Trump tariffs, the company has lost 70 percent of its business and laid off 160 employees. The parent company, which is owned by Mexico-based Deacero, may find itself with no choice but to shift its nail production to Mexico. If the company mothballs its Missouri plant, are they likely to suddenly re-open it should Trump's tariff war come to an end?

One of the best examples of a U.S. industry that faces a long-term threat stemming from the tariff increases is the soybean industry. China is by far the leading market for American soy farmers, importing about one-third of all U.S. soybeans. The growth has been spectacular. In 1982, China imported 30,000 tonnes of soybeans in total. Last year, it imported 32.9 million tonnes of soy from the United States alone.

But as a result of China's retaliatory tariff increases, Chinese soy purchasers are looking for alternatives to U.S. farmers, and they are finding them. For example, Chinese soy crushers have contracted with Russia, which is dramatically expanding its soybean production, to meet long-term Chinese needs. Chinese companies are buying all of the South American beans they can, building record stocks.

But Chinese soybean users are not just looking for alternative suppliers; they are also reducing their need for soy. They are considering slashing the current practice of using a 20 percent soy ration for hogs to just 12 percent, (eliminating a hangover recipe promoted by U.S. soybean producers over 35 years ago when they opened the Chinese soy market) – a move that could almost obliterate Chinese demand for U.S. soybeans.

The impact on supply chain relationships is already being felt If companies build new plants outside the United States, at significant cost, will they just scuttle them when tariffs are lifted? Warning of higher costs because of retaliatory EU tariffs, iconic U.S. motorcycle maker Harley Davidson has said it will shift production of bikes destined for the European Union out of the United States to factories it has built in India, Brazil and Thailand.

Lincicome offers several examples of U.S. companies hobbled by tariffs when it comes to sourcing materials. For example, '47 Brand Hats, of Massachusetts faces higher raw material costs thanks to Trump's tariffs, and cannot find domestic suppliers to produce hats. It is considering job cuts to compensate. Batesville Tool and Dye of Indiana says it may be forced to shift some production to a plant in Mexico in response to higher steel prices caused by tariffs. The Ohio wheel maker Americana Development has been forced to raise prices due to tariff costs. As a result some customers have taken their business to Chinese suppliers. Processed-food maker Alfa has switched to Canadian, European, and South American suppliers to avoid tariffs. New Hampshire metal-service center All Metals Industries has been forced to turn down large orders from potential customers because it can't source material due to tariffs.

None should think that the Trump Administration's high tariff policies represent a temporary tactical battle with no long-term effects. When it comes to reduced U.S. exports, closed U.S. plants and destroyed supply chains, the smell of destruction will hang over the U.S. economy for a long time.