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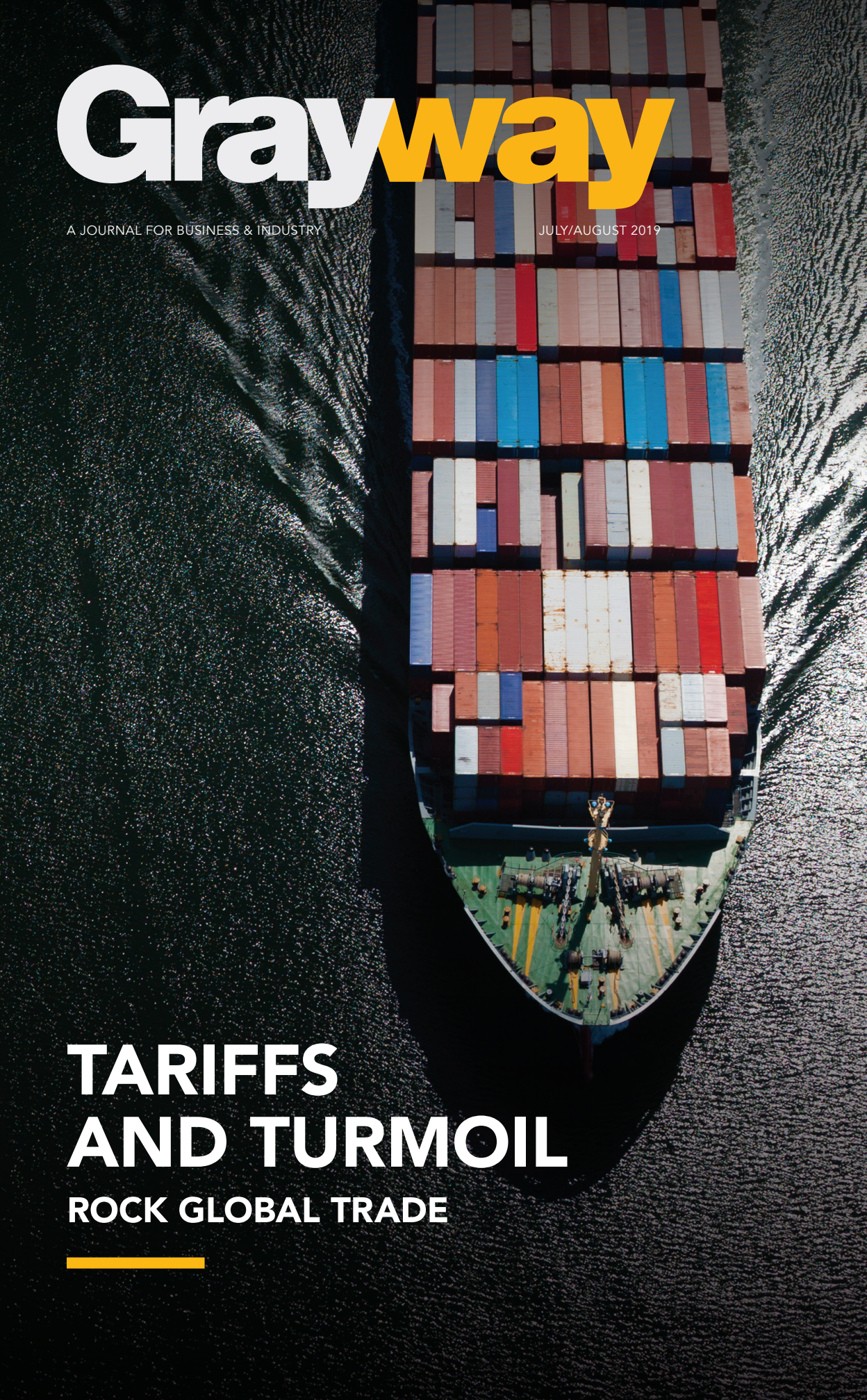

TARIFFS AND TURMOIL

ROCK GLOBAL TRADE

WELCOME

Stephen Gray
President &
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The global trade landscape has experienced dramatic disruption over the past year after an influx of tariffs have emerged. Multiple industries and markets are feeling the effect of these actions with mixed reactions coming from the stock market and business community.

In this issue of the GrayWay, we dive into the tariffs and their global impact, paying particularly close attention to economic growth. Since trade deficits are a natural result of business trade, we also examine their influence as positive or negative on the economy.

THE TARIFF IMPACT ON U.S. MANUFACTURING, TRADE DEFICIT

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TRADE TURMOIL

Tariffs Create Unease among Global Trading Partners

Despite years of fairly smooth trading, global markets were rocked last year by eruptive tariff policies, which have impacted a variety of markets, including steel, aluminum, food processing and agriculture. China has been a focus of the dispute after the U.S. government levied tariffs on the nation in response to unfair trade practices and theft of U.S. intellectual property.

As the situation continues to escalate, economists and business leaders worry about negative economic impacts, including the possibility of recession. More U.S. tariffs on China could result in retaliatory measures by China that would hurt U.S. companies operating in China. Another concern is that China might ban the exports of rare earth minerals to the U.S., resulting in a significant hit to U.S. electronics companies.

A close call with tariffs occurred between the U.S. and Mexico, which would have resulted in a 5% tariff on all imported goods from Mexico. Although the situation was averted, it raised questions about the reliability of trade between the two countries in the future. More recently, in retaliation for U.S. import duties on Indian steel and aluminum, India imposed tariffs on 28 American products, including apples—which will be hit with a 70% tariff.

The threat of a long-lasting trade war has put U.S. companies on edge. "Tariffs are having big impacts," notes Robert A. Eisenbeis, vice chairman and chief monetary economist for Cumberland Advisors, a money management and investment firm. "It is generally accepted that trade makes all nations better off and that protective tariffs are wealth-reducing and harmful. Research also shows that incidence of tariffs falls mainly on the country restricting imports in the form of higher prices and welfare losses. The U.S. trade deficit is relatively small compared to the size of the U.S. economy. In addition, the idea that we should have a trade balance with each trading partner is an unrealistic concept."

Robert A. Eisenbeis
Vice Chairman and Chief
Monetary Economist
Cumberland Advisors

Agriculture, along with food processing and manufacturing, is one of the main industries in the U.S. currently feeling the unwanted effects of the tariffs.

Industries Feel the Impact

The economic impacts of the tariffs affect all industries, including metals, steel, chemicals and agriculture. An unwelcomed impact is domestic oversupply. “Meat and poultry production in the U.S. have been increasing over the past decade, in part to meet the demands of a growing global population,” says Tami Griffin, national practice leader for the food, agribusiness and beverage industry at Aon, a professional services firm that provides risk and retirement services. “Without international market availability, these producers are faced with a domestic oversupply.”

In addition, food processing companies also suffer from tariffs on imported steel and aluminum prices. “We’ve seen profit warnings from multiple companies,” Griffin adds. “In fact, some companies have halted expansion plans due to the overall uncertainty associated with cost of goods and facilities.”

"Without international market availability, these producers are faced with a domestic oversupply."

– Tami Griffin
Aon

Most U.S. businesses were initially reluctant to abandon well-established supplier relationships with countries over a trade dispute that could be over in a matter of a few months. However, as the dispute now drags on into its second year, and involves more countries, a growing number of businesses are shifting supply chains away from China.

Despite concerns that it could trigger a recession, the U.S. tariff policy has so far not damaged the U.S. economy. Economic growth continues to be strong and unemployment recently hit a 50-year low. Even so, the barrage of tariffs has created uncertainty among companies that rely on international trade, making them reluctant to invest capital or expand their operations.

In fact, on June 13 more than 600 American retailers, tech companies, manufacturers and trade associations — including Walmart, Panasonic, Spectrum Brands and the American Association of Exporters and Importers (this issue's New Face feature) — appealed to the White House to lift the tariffs on imported Chinese materials and products:

"We know firsthand that the additional tariffs will have a significant, negative and long-term impact on American businesses," they wrote. "Broadly applied tariffs are not an effective tool to change China's unfair trade practices. Tariffs are taxes paid directly by U.S. companies. According to Trade Partnership Worldwide, 25% tariffs on an additional $300 billion in imports (combined with the impact of already implemented tariffs and retaliations) would result in the loss of more than two million U.S. jobs."

Eisenbeis believes that the uncertainties created by the Trump administration's tariff policy pose a greater risk to the U.S. economy than the financial impact of the tariffs themselves. "We don't know from one day to the next how these policies or strategies will change, which creates a very risky climate for businesses," he says.

On the upside, however, forward-thinking companies will respond to this challenge by digging deeper into their business continuity planning. For example, in response to tariff disruptions, companies can explore new markets (countries) for importing supplies and exporting finished products that are more stable.

"Changes like this can be viewed as opportunity," says John Minor, U.S director of crisis management and political risk for Aon. "Business leaders can move from reacting to an event, to proactively anticipating one and improving their product or delivery in advance of external forces prompting them to do so."

TRADE DEFICITS

Are They Bad for the U.S. Economy?

In 2018, the U.S. posted an $891.2 billion trade deficit, the largest in the nation's 243-year history.

That sounds bad—but is it?

Trade deficits are a natural part of healthy international trade. Most nations carry a trade deficit as a standard way of doing business. The size of a trade deficit is influenced by a variety of macroeconomic factors, including economic growth rates, currency values and savings' rates. Policies that aim to reduce trade deficits typically constrain the diversity of goods being traded, raise costs on companies and consumers and have negative impacts to economic development.

Trade deficits typically reflect a solid, high-performing economy.

For example, Americans are prosperous enough to buy more imported goods from China than the Chinese can buy from the U.S., which creates a monetary surplus for China.

However, due to the lack of productive investment opportunities at home, China invests its profits in other countries, especially the U.S. "In other words, money flowing out to pay for imports flows back in to help pay for productive investment in new capital," says William D. Lastrapes, professor of economics at the University of Georgia.

When the U.S. economy is expanding, with low unemployment numbers and high consumer spending, the trade deficit tends to grow. The U.S. dollar is also generally stronger against other currencies in these situations, which also increases the deficit. For example, seven years after the U.S. signed NAFTA, the trade deficit hit an all-time high, yet unemployment had fallen to 3.8 percent—the lowest point in three decades.

Trade Deficits Reflect Healthy Trade

In short, trade deficits mean that international capital markets are functioning properly, driven by natural market forces that reflect efficient borrowing and lending around the world.

"Trade deficits do not imply a loss of American wealth, or that other countries are taking advantage of the U.S.," states Lastrapes.

Trade deficits can be a problem if they are the result of excessive government borrowing in countries that are politically unstable and/or have weak economies. But

for powerful, well-developed economies like the U.S., "trade deficits are not an inherent problem," he adds. "In fact, we're better off having trade deficits than imposing tariffs and restrictive trade policies to prevent them."

Trade Deficits Built the U.S.

As a newly formed country, the U.S. relied on trade deficits to grow its economy. According to Stephen Moore, a distinguished visiting fellow at research firm Heritage Foundation, during a span of more than 100 years of colonial and United States history, "America ran a trade deficit in 95 years of those years," he says. "By importing net capital, our country grew enormously, employed workers at high wages and developed a job and wealth creation machine that was rarely seen before."

What does reduce trade deficits, however, is recession. When an economy contracts, so does the trade deficit. This happened most recently during the Great Recession of 2009, when the trade deficit fell by about 40% as the economy collapsed and $7 trillion of wealth was wiped out.

The Center for Strategic and International Studies indicates that the goods deficit with China reached an all-time high in 2018 of $419 billion, nearly half the total U.S. trade deficit. Even though this seems alarming, "we should not be too concerned about reducing the trade deficit," state William Reinsch and Jonathan Robison, global trade experts with the Center for Strategic and International Studies. "The newly released data confirm what most economists have consistently argued—that the trade deficit is largely determined by macroeconomic factors and that simply imposing tariffs does not reduce the deficit. The deficit we should truly be worried about is the federal budget deficit, but that's a whole different issue."

THE NEW FACE OF MANUFACTURING

American Association of Exporters and Importers (AAEI)

Founded in 1921, the American Association of Exporters and Importers (AAEI) represents the interests of U.S. companies engaged in global trade. For nearly 100 years the association has served as an expert resource regarding the business of importing and exporting U.S. goods to foreign nations and developing strong and fair global trade relationships.

Marianne Rowden
President and CEO
AAEI

AAEI members consist of U.S. manufacturers in every industry that imports and exports goods as well as service providers and law firms who serve such manufacturers. Led by president and CEO Marianne Rowden, AAEI advocates on key trade issues before the U.S. Congress, executive agencies and multiple global organizations including the World Trade Organization and the World Customs Organization.

AAEI is also committed to educational outreach to international trade compliance professionals through its ten standing committees, which routinely analyze proposed trade policies, regulations and other platforms with government officials and trade groups around the world. It also provides updates on government trade policies and regulations through its International Trade News Alert and compiles annual data on import, export, security and product safety issues.

A strong supporter of smart trade policies that benefit U.S. companies, especially the development of digital trade, AAEI has joined a number of advocacy groups including: USMCA Coalition, a group of more than 250 businesses and associations seeking passage of the United-States-Mexico-Canada Agreement (USMCA) to modernize NAFTA; Alliance for Competitive Steel and Aluminum Trade (ACSAT), which opposes section 232 tariffs on steel and aluminum; and Americans for Free Trade, which opposes the imposition of section 301 tariffs on imported goods.

"In this changing and challenging trade environment, it is imperative that every company get engaged with a trade association specializing in international trade such as AAEI," says Rowden.

GRAY... WE'RE BUILDING

YKTA

HUNTSVILLE, ALABAMA

Y-Tec Keylex Toyotetsu Alabama (YKTA), a newly formed automotive company, selected Gray to design and build a 651,000 s.f. automotive manufacturing plant in Hunstville, Alabama. The new greenfield facility is being built on-site at the Mazda Toyota Manufacturing U.S.A., Inc. (MTMUS) assembly plant currently under construction and will include areas for stamping, welding, assembly and paint to produce automotive parts.

As the joint venture of three very successful companies, YKTA will begin making company history in Huntsville, Alabama as a tier one supplier for Mazda Toyota and will begin production in early 2021.

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