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Trump tariffs unlikely to radically alter supply chains in short term

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C.H. Robinson Worldwide CEO John Wiehoff speaking at the SMC3 Connections 2018 conference. Photo credit: Ari Ashe.

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If the United States implements tariffs on China (https://www.joc.com/regulation-policy/trade-data/us-china-container-trade-accelerating-despite-tariffs-import-bans_20180614.html), interest groups have suggested some dire scenarios such as inflation on everything from cars to homes and an economic recession, but supply chain experts do not share those same fears.

President Donald Trump has said he isn't opposed to free trade, but he wants fair trade too. The president plans to impose tariffs on \$50 billion worth of Chinese goods and threatened up to \$400 billion more if China retaliates. The US Treasury Department is expected to also announce restrictions on Chinese investments in the United States, and China plans to respond with tariffs that will likely hurt US producers of cotton, soybean, live animals, and animal products (https://www.joc.com/regulation-policy/trade-policy/us-trade-agreements/tariffs-just-precursor-regarding-us-ag-exporters%E2%80%99-pain_20180625.html).

Automakers, retailer, farmers, others want Trump admin to rethink its policy

Automakers, retailers, homebuilders, and many others want the president to rethink his stance because they are worried about how trade wars will make products much more expensive. Eventually, consumer spending could slow when prices reach a breaking point and less freight would then move on trucks, planes, and trains. Transportation rates would fall and shippers might rely less upon third-party logistics providers because the pressure would ease on finding trucks and becoming a shipper of choice (https://www.joc.com/trucking-logistics/ll-shipping/12-steps-becoming-shipper-choice_20180405.html).

But John Wiehoff, chairman and CEO of C.H. Robinson Worldwide (https://www.joc.com/international-logistics/logistics-providers/ch-robinson-worldwide), told attendees at the SMC3 Connections 2018 conference these policies won't derail the long-term trend of globalization.

"The trends towards globalization and global optimization are too compelling, there's too much capital invested that it is not going away. It's going to continue," he said. "But there is probably room for arguing about when we're inventing technology, producing it in other parts of the world, and then importing it, how do you settle up financially around it?"

Jon Slangerup, chairman and CEO of American Global Logistics, said there are other ways to address intellectual property theft. But from a macroeconomic perspective, he believes that the hit would be small because the United States trades nearly \$5 trillion in goods each year, according to the Bureau of Economic Analysis.

"Is it going to hurt what is a very robust trade economy? It may have a little impact, but I don't think it will have a big impact," Slangerup said.

In the short term, Wiehoff and Slangerup believe importers will pay the tariffs. But they are skeptical about whether tariffs will radically alter supply chains. Shippers discussing the annual State of Logistics report in mid-June also said they would take a long-term view of their supply chains (https://www.joc.com/international-

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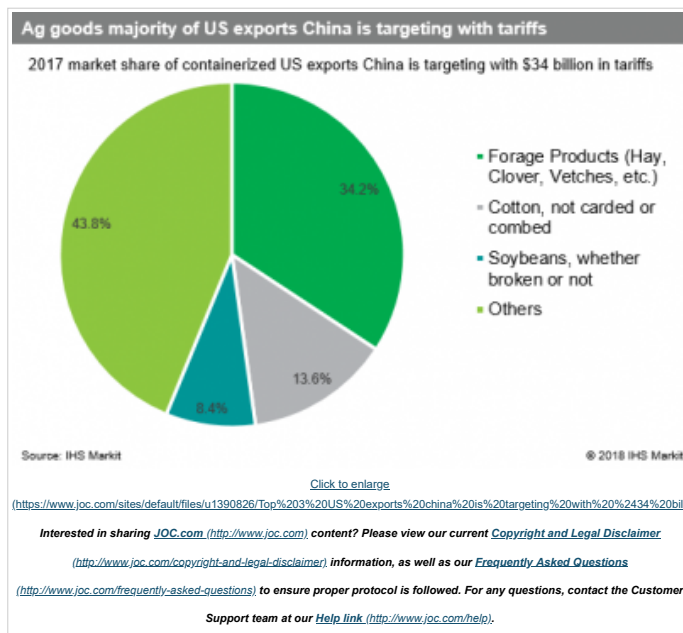
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logistics/shippers-discuss-peak-season-intermodal-trade-wars_20180620.html) rather than have a knee-jerk reaction.

"I don't think there is panic. Be vigilant, be aware about understanding the impact on the business, and we run models all the time. We make sure our voices are heard and we are expressing our concern. But there are things you can control and things you cannot control. So we're staying the course because we are in it for the long haul," said Sylvia Fouhy, vice president of customer experience, Johnson & Johnson.

Inventory building before tariffs are enacted

One thing shippers are doing, Slangerup said, is stocking up on inventory before the tariffs are enacted, which can occur as soon as July 6 (<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/june/ustr-issues-tariffs-chinese-products>) on \$34 billion worth of Chinese goods. (<https://ustr.gov/sites/default/files/enforcement/301Investigations/List%201.pdf>)

"Some of our customers seem to be accelerating their sourcing to try to get in front of any short-term impacts from tariffs [on earnings]. That may drive an earlier increase in volume than we typically anticipate," he said. "This is especially true on the e-commerce side where customers are repositioning ahead of a potential disruption. That is how agile supply chains are becoming. [Shippers] anticipate some global impact and they can move quickly to adjust."

Could this have been responsible for a recent uptick in drayage (https://www.joc.com/trucking-logistics/us-drayage-demand-rising_20180615.html)? Maybe.

But there might be no connection whatsoever between the two because the surge in drayage was momentary. Jason Hilsenbeck, founder of Loadmatch and Drayage.com, said the number of clicks in his directory have leveled off in Chicago, Dallas, and Memphis, Tennessee, after a two week surge earlier in June, although they do remain elevated on a historical basis. More information in the coming weeks could shed light on tariffs and drayage when ports release their June volumes and the Intermodal Association of North America calculates containerized traffic counts.

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