Repercussions of the escalating trade war between China and the US on the supply chain: Who is really losing?

As the 'tit for tat' tariff war between the US and China continues, Joseph Esteves, Maine Pointe's Vice President Industry Partner, looks at the potential impact on US manufacturing and its effect on medical and life sciences companies. He considers the steps leaders should take right now to remain competitive and protect margins if the proposed tariffs become reality.

President Trump won the 2016 election with his tough policies and promise to, "Make America great again." The recent 25% tariff on Chinese imports in the US is proof that he is prepared to take bold and controversial actions to make good on that promise.

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The latest: Nearly 25% tariff on 1,300 Chinese products

The US government has used the alleged theft of trade secrets as the basis for proposing this new tariff which would impact $50 billion worth of goods imported into the US from China. When the proposal was announced earlier this month, China was quick to retaliate with the threat of its own tariffs on products imported from the US. Many of these tariffs would target the aerospace, communication, technology, medical, scientific and manufacturing sectors, also affecting a total of $50 billion worth of products.

The repercussions

If the tariffs become reality, they will impact as many as 40 manufacturing and agricultural industries in the US, with high-tech and low-tech, industrial and commodity and specialty production all represented.

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Manufacturing companies that heavily rely on imported equipment from China are going to see a huge impact on their supply chains. Not only that, but companies who supply products to the US market, and have components made in China, will also feel the pain.

An example of a sector that will be heavily hit by the proposed tariffs is the medical industry. 80% of pharmaceutical manufacturing of key ingredients takes place outside the US, chiefly in China and India. Also, what's noticeable here is the new tariffs won't be limited to chemicals and ingredients that America imports from China but will impact various medical devices and components as well. These unexpected tariffs will target medical equipment, medicine and components for life sciences instruments including hearing aids, defibrillators, syringes, sutures, artificial teeth and X-ray machine equipment. A report by RBC Capital Markets suggested this could cost the medical device industry as much as $1.5B per year.

Needless to say, cost increases on this scale will greatly impact many companies' ability to compete in the global arena. The biggest challenge to competitiveness will be the capability to quickly realign the supply chain and reduce the risk of exposure. If executives don't act now to assess their current supply chain maturity and take a proactive approach to improving their procurement, logistics and operations capabilities, they may soon be feeling the pinch. The reality is many companies are at risk of losing their competitive advantage or being priced out of the market completely.

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Conclusion

It's important to bear in mind that the tariffs won't be activated until May 15 and could disappear altogether if Beijing makes certain trade and investment concessions. However, 'wait and see' isn't the best approach to take. In fact, it's more a case of 'hope for the best but prepare for the worst.' If your manufacturing business is likely to feel the pain of tariffs, now is the time to get actionable insights into how you can optimize your supply chain and operations to release cash, reduce cost and facilitate growth.

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