

US tariffs see small businesses plead for mercy as trade war bites

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James Politi, *Financial Times*, August 24, 2018

One by one, they paraded before a panel of US administration officials this week to plead for mercy in the escalating trade war with Beijing, at a public hearing on the \$200bn in new tariffs threatened by Donald Trump against imports from China.

There was Adam Finkel of Annjoy, Arizona-based supplier of paper shopping bags used by high-end retailers such as J Crew and Godiva. There was Wendell Howerton of Blue Ribbon Products, a North Carolina-based manufacturer of cast nets for fishing.

There were lobbying groups representing home appliance makers, and the US fishing industry. And there was Steve Williams, of Elberta Crate & Box, from rural Georgia, which has been in business since 1905 making wooden containers for fruits and vegetables. All were bracing for a big hit to their business if the new tariffs end up being implemented.

“Everything was just thrown in the kitchen sink and we’re part of that,” Mr Williams told the FT after testifying in the large hearing room in a federal building in downtown Washington nestled between Nasa headquarters and a Catholic church. “I think I understand, in fairness, what the administration is trying to accomplish, yet it can be devastating or very difficult for a decent amount of companies to overcome some of these issues,” he added.

Mr Williams said his profits had already suffered a 40 per cent hit from tariffs set by the Trump administration on Canadian lumber and Chinese wires.

But if US officials pressed ahead with plans to include soft plywood — the key component of Elberta’s crates — the company could be forced to look at other options, including production outside of America.

Angst about the impact of Mr Trump’s protectionism has been steadily rising across the entire fabric of the US economy, where a wide range of businesses have come to rely on global supply chains — particularly involving China — to keep prices low and profits high, and are worried that era could soon come to an end.

In the first stage of the US-China trade dispute earlier this year, some small businesses hoped they might avoid any big blow, as the early tariffs worth \$50bn (of which \$16bn took effect this week) were more limited in scope.

But once Washington went a step further and said it was prepared to set a further \$200bn in tariffs of up to 25 per cent, hardly any sector would be immune to the resulting combination of lower sales, job losses and rising prices.

At the hearing, many executives asked administration officials to remove their preferred

Chinese import from the dreaded list, but it was far from clear how much leeway there could be.

“The administration made a conscious decision at the beginning to target products which would not have a consumer impact,” said Bill Reinsch of the Center for Strategic and International Studies, a think-tank in Washington. “But once you get to \$200bn you cannot avoid that because it really does reach far,” he said.

Mr Finkel predicted “instant disruption” if it became too costly to source from China. “There would be no shopping bags in malls across America on Black Friday, at Christmas and into perpetuity,” he told the panel.

There is still a chance that the new round of US tariffs — and Chinese retaliation — could be averted, as negotiators from Washington and Beijing held their first meeting in months this week to discuss a possible settlement.

But few are optimistic that the talks — led on the US side by senior treasury official David Malpass and on the Chinese side by Wang Shouwen, a senior commerce ministry official — will be successful.

“Just as all the other negotiations have come a cropper, I would be sceptical of this one too,” said Rod Hunter, a partner at Baker McKenzie, the law firm, who worked on international economics in the George W Bush administration.

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There are some businesses cheering on the Trump administration’s protectionist push, and some testified this week in support of the plan. A New York-based manufacturer of metal ball chains saw tariffs as the only redress against unfair Chinese competition. “The playing field is not level, we do our best to compete on the international stage, but it is clearly impossible,” said Ball Chain’s Val Taubner Jr.

But most were distressed. Mr Howerton said his fishing nets business had been scrambling to find alternative sources to China and recently found similar products in Thailand, but the prices were 20 to 30 per cent higher.

“We cannot shoulder such a large tax,” he said. “Customers would repair and keep their nets longer.”

Mr Williams reckons that seven out of eight witnesses on three panels he attended at the hearing were opposed to the tariffs. “They were trying to get exemptions or inclusions, they were trying to get some grace.”