

# Report on Supply Chain Compliance Volume 2, Number 13. July 18, 2019

## US-China trade war pivots; other trade agreements show promise for global supply chains

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The United States and China have promised to return to the negotiating table after a meeting between President Donald Trump and President Xi Jinping during the G20 conference in Osaka, Japan. The agreement at the G20 conference involved some concessions on both sides, but it is unclear what actions will be taken in the immediate future. The U.S. agreed to shelve an additional USD 300 billion in tariffs and remove some restrictions on the sale of electronic components to Huawei Technologies Co. Ltd. China bought 544,000 metric tons of soybeans in the days leading up to the G20 conference, and there has been discussion of future purchases to come.

These moves may bring some slight relief to global supply chains rocked by a year of trade conflict between the two powers, but the reordering that began last year has gained an unstoppable momentum. Global supply chains have shifted and will continue to shift into new configurations — and be governed by a whole new set of trade regulations — and there is little chance of undoing the changes that are happening right now.

Among the major drivers of global supply chain changes are:

- Increased risk mitigation by global companies affected by tariffs and trade conflict.
- New and expanded free trade agreements between a wide variety of nations.
- The development of new manufacturing and logistics capacities by nations formerly in the shadow of China.

### Compliance vs. profitability

The big choice facing companies since the trade conflict erupted between the U.S. and China has been whether to comply with new tariffs and regulations, or move production. The answers to that question have been varied.

Apple Inc.'s supply chain, for example, is deeply entrenched in China, where it employs approximately 3 million people and assembles every major product it sells globally. Apple recently asked its suppliers — primarily Taiwanese companies Foxconn (Hon Hai Precision Industry Co., Ltd.), Pegatron Corp. and Wistron Corp. — to explore possibilities in Southeast Asia. Moving any aspect of the sprawling supply chain it has in China would involve years of training the workforce and ensuring quality control, but the move has started. Additionally, Apple has moved production of its Mac Pro computer to China from the U.S. This move emphasizes where Apple sees its opportunities in the future and its pragmatic approach to the risk of tariffs and other duties: moving production closer to the market removes unnecessary costs and fees.

Harley-Davidson, Inc. recently announced a joint venture with Chinese manufacturer Zhejiang Qianjiang Motorcycle Group Co., a company majority-controlled by Geely, to produce motorcycles in China for the Chinese market. The motorcycle is smaller than its American counterpart but will reportedly look and sound unmistakably like a Harley. The move here takes advantage of the opportunities presented by a trade war to

establish a manufacturing and supply chain base in China and to market a new product for new consumers.

Companies and trade associations have banded together to send several letters to the Trump Administration protesting the lack of an agreement between the two nations, including a letter sent on June 13, entitled “Tariffs hurt the Heartland.”

“Tariffs are taxes paid directly by U.S. companies, including those listed below— not China,” the letter reads. “Furthermore, we have seen repeatedly that tariff increases and uncertainty around these trade negotiations have created turmoil in the markets, threatening our historic economic growth.”

Although these letters may have played a role in preventing an escalation of the trade conflict at the G20, the damage has been done for many companies. In a June 17 Washington Post article, several companies admitted they were choosing profitability over compliance, and contemplated moving production out of China to nearby Asian countries, such as Vietnam and Malaysia. Most, however, also admitted that moving supply chains would be very difficult, if not impossible.

“If we are forced to move production from China, it will take a long time to make sure that new factories will make the garment correctly and can get the proper materials,” wrote Mark Corrado, president of Leading Lady, a bra maker in Beachwood, Ohio, who testified before the U.S. Trade Representative in June. “The costs may be too great, too, as we are barely profitable now.”

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