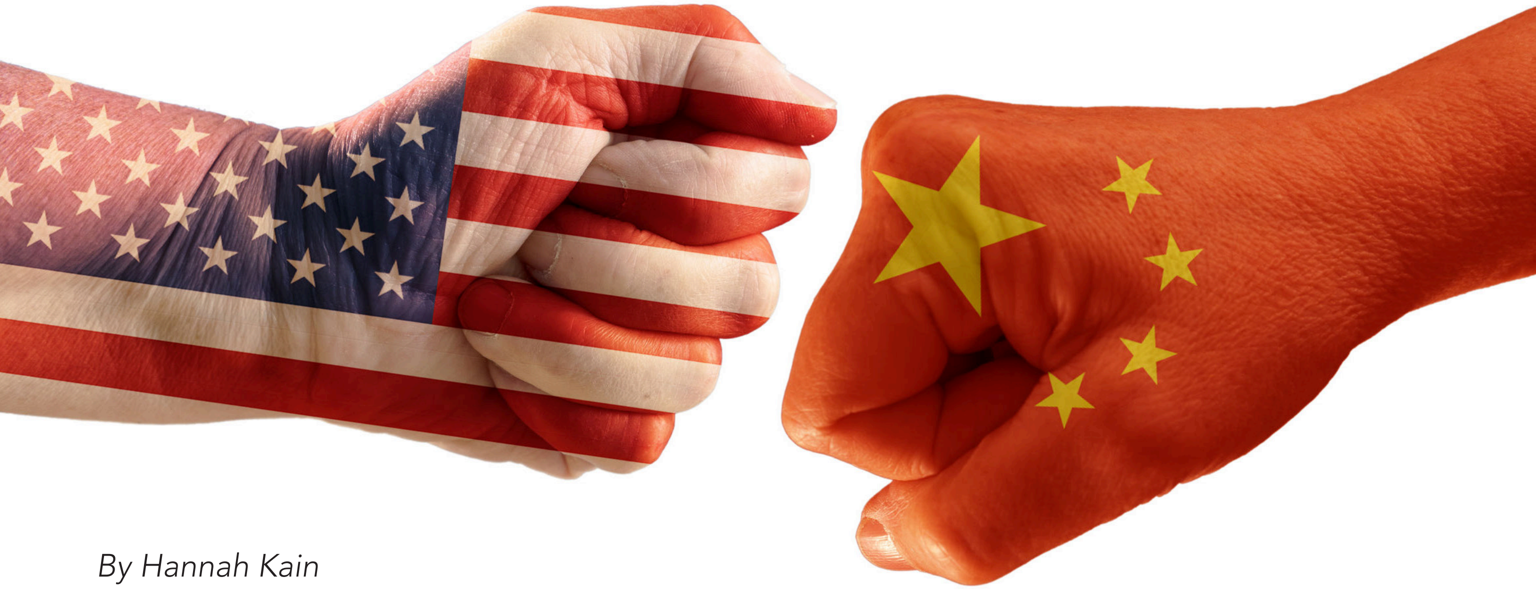
COLLATERAL DAMAGE

MWBEs ON THE LOSING SIDE OF GLOBAL TRADE WARS



By Hannah Kain

With U.S. and China trade tariffs escalating and the U.S. relationship with North American Free Trade Agreement (NAFTA) countries Canada and Mexico increasingly tense, small businesses and minority and woman business enterprises (MWBEs) have to face the reality that they could become collateral damage in ongoing trade wars. It's not only large multinational corporations, but also smaller businesses with supply chains extending into China and other countries that could incur increased tariffs and losses due to pre-contracted prices and investments overseas.

Let's look at how this dispute over tariffs is impacting smaller businesses.

First, overseas business investments are at risk. For years, small businesses — and MWBEs in particular — have pursued the goal of international business to keep pace with corporations' need for global services. This involved investing in international markets and sourcing from international locations — investments that are now at risk. A broad range of companies are affected. China has imposed tariffs on farm products and seafood — as well as autos; and this can hurt small food exporters, agricultural supply companies, or auto parts suppliers.

Unfortunately, not only are the investments costlier for small businesses because they represent a larger percentage of revenue, but they are also more vulnerable to the impact of retaliatory tariffs. Specialized niche players, such as farmers with one crop only, are hit hard. We hear stories of farmers who are thinking that they may have to close their doors.

Higher costs of imported components or raw materials will have a severe impact on smaller businesses that often have fixed price contracts with corporate customers and suppliers alike, but now need to add an unanticipated 25 percent on the component price.

Further, if they are concentrated in one foreign market (58 percent of smaller manufacturers) and one product category, a sudden and dramatic loss in profit can put a company at grave risk.

Second, it creates a new level of price vulnerability in the supply chain. With about half of U.S. production being exported, trade policies have a broad impact on virtually everyone in the supply chain. U.S. manufacturers rely on imported components that are hit by import tariffs.

Long manufacturing lead-times means that it will take time to readjust the supply chain to adapt to different price points; and sudden changes in tariffs make it hard to readjust in an orderly fashion. Most supply chain

professionals have heard about inbound orders that were placed years ago being subject to unanticipated tariffs when they reached U.S. shores. Exporters such as automakers have experienced three different levels of tariffs into China within a span of just one week.

Is this a new normal and do we need to make adjustments to this more permanent reality? This may be an impetus to redesign the supply chain to accommodate the new cost structure. However, with so many parameters in flux, both large and small companies may not choose to invest in moving plants and restructuring.

Small companies may become caught if they have fixed price contracts forcing them to deliver at a predetermined price, while component or finished goods cost increase due to import tariffs. For just one commodity, **ALOM**, a woman owned global supply chain management company for many of the world's leading brands, is being hit with over $2 million in annual tariffs under the proposed tariff structure.

Third, trade disputes need resolution. Although tariffs are creating a new crisis, other significant trade disputes, already in existence, have impacted small businesses disproportionately. These include intellectual property violations, regulations that serve to keep foreign competition out and distort trade balance, and biased taxation and bureaucracy. For example, it requires substantially less documentation and processing cost to ship a $700 product from Canada to the U.S. than is required to ship a $7 product from the U.S. to Canada. This effectively cuts smaller e-commerce retailers out of competition in the Canadian market. At the same time, there are also substantial trade issues that could be solved inside the U.S. and are self-inflicted. While 90 countries have export support, the **Ex-Im Bank** in the U.S. has been caught in political limbo for years, leaving exporters without crucial support. These issues are critical for smaller companies looking to do international business.

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To be fair, there are also opportunities for some companies in a "protected" domestic market. However, that requires that the tariffs become "permanent." Only then will companies invest in new plants and new production as suppliers of products that are subject to tariffs. The type, size and time-delayed effect of investments needed do not lend themselves to meet a temporary situation. For instance, the time it takes to open a plant for domestic production can be one to three years.

Finally, this heightens the threat of an economic downturn. While costs have gone up over the last several years, the booming economy has helped the top line in many companies. Compliance cost and risk management, for instance, with regard to cyber security, have spiraled out of control. If the economy slows, the cost structure could prove fatal to many companies, and the downward drop can become very steep.

When small businesses are downsized or shuttered, it reverberates through all social strata. MWBEs and other small businesses have a disproportionate and positive social impact among minorities and economically disadvantaged people, especially in urban areas.

The risks described above throw a toxic bomb of uncertainty into planning and booking business in an already complex environment. Uncertainty hurts all businesses, and now CEOs and supply chain and government relations executives are devising short and long game strategies on how to best handle the crisis. In the meantime, everyone can hope that this trade war has winners and that small U.S. manufacturers with global supply chains will not become its victims. ◆