



Tariffs Will Cost You Whether You Exit China or Not

By Tara Donaldson



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It's easy to think a move out of [China](#) would be the best way to dodge the [Trump](#) administration's tariff blows, but a closer look could prove that reaction somewhat imprudent.

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The slow retreat from apparel sourcing in China has been ongoing since labor costs started rising in the country, and the last decade's supply chain diversification has certainly minimized what could have been an even bigger disruption for apparel players making most of their goods in the country. The reality is, however, that no amount of diversification can make up for what China has when it comes to capacity and capability.

Since 2000, U.S. apparel imports from China have gone from roughly 5 percent to 42 percent today, according to American Apparel & Footwear Association (AAFA) executive vice president Steve Lamar. And though footwear imports have fallen from about 90 percent to 69 percent over the same period, neither is a small stake when all imports from China are at risk of new [tariffs](#).

“There’s a lot of diversification in apparel and footwear,” Lamar said speaking at a recent Tariffs + Turmoil seminar hosted by Sourcing Journal in partnership with MMG Advisors, Alba Wheels Up, CIT, RSM, and Sorini, Samet & Associates, LLC. “Although China continues to be an incredibly competitive place to put your supply chain.”

That predicament has many apparel companies looking to match what they get from China in other countries, but global companies selling to markets around the world may not be able to dial their China sourcing back enough to skirt the hit from new tariffs.

While the product China makes for the U.S. may be under threat, China is also making product for its own domestic market, for Europe largely, and for the rest of the world.

“Even folks that pull out of China are still going to have a lot of China production because they’re selling to multiple markets,” Lamar explained. “That said, as they’re looking at other countries, they’re increasingly running into problems.”

It’s the “bumper car effect,” Lamar said.

“You move out of China and pull out of factories, you’re bumping people out of other factories, you’re bumping into capacity constraints,” he said. “So, if you look at the normal difficulties associated with moving supply chains...when you talk about this going on for an entire industry, you’re going to run into capacity issues.”

And with capacity issues, comes the inflationary impact.

“When you look at the 25 percent [tariffs] on China—which is 42 percent of our apparel and 69 percent of our footwear...since we’re already at 25 percent, that’s a huge inflationary impact just by itself,” Lamar said. “But then when you add in all of the synthetic inflation or the opportunistic inflation that can occur when capacity is pushed back or when other countries are taking advantage of China’s misfortune, then you can see cost and price pressures in every point in the supply chain coming from everywhere.”

This, Lamar said, will have “massive” inflationary impact on the supply chain, no matter where companies have their sourcing concentrated.

“Even if you’re not in China, even if you’re outside of China, you’re going to see the impacts,” he said. “And it won’t just be on the prices, it will be on customs...it will be on logistics.”

Where does the industry go from here?

Whether it’s Mexico, India or Vietnam topping the list of sourcing countries to turn to, the Trump Administration has made clear that no trade agreement is entirely safe from change or upheaval.

What had been most appealing to U.S. companies about sourcing in Mexico, apart from its proximity, was the predictability of the NAFTA trade agreement. Now that the trilateral trade deal has been transitioned to the new—albeit strikingly similar—United States Mexico Canada Agreement (USMCA) and Trump has threatened—and then indefinitely postponed—tariffs on Mexican goods coming into the U.S., that predictability is hardly as reliable as it once was.

“It doesn’t even matter that the threat of tariffs are on hold,” Lamar said. “The fact that that predictability was shattered in a single tweet, the amount of [AAFA] members that are now saying they’ve been looking at Mexico has dropped precipitously.”

But Vincent Iacopella, EVP of growth and strategy at Alba Wheels Up International Inc., a customs brokerage company, is bullish on Mexico because he doesn’t expect to see tariffs there, despite how much the Trump administration may want it.

“There hasn’t been duty collected on the southern border for 25 years, every southern border has a minimum security bond, the finance companies don’t have infrastructure down there,” Iacopella said. “One of the reasons our government backed off is that even if you wanted to collect duties at the southern border tomorrow, you couldn’t do it because there’s not enough infrastructure.”

Looking at India, it may be the Trump administration’s next target.

Trade there is already set to grow more complex with the administration’s recent removal of the country from its Generalized System of Preferences (GSP) trade privilege program.

“Removing India from GSP, it doesn’t stop there in the sense that they’re talking about possibly a 301 case involving India,” Andrew Samet, principal at Sorini, Samet & Associates, said, indicating that the Trump administration could look to India to similarly impose tariffs—as it did with China—under Section 301 of the Trade Act of 1974, which gives the U.S. authority to impose trade sanctions or raise import duties because of unfair trade practices. “India is the next China, obviously, and the administration has people who don’t want to see it develop in terms of its trade relationship with the United States in the same way, growing a huge deficit. The Indian economy, eventually, as China’s, will be bigger than the U.S. economy, and you can reach out and touch that time when that’s going to happen.”

Where Vietnam is concerned, Samet said, moving sourcing there will come with its own problems—including a ballooning trade deficit, an area that’s been a thorn in President Trump’s side, particularly with regard to China.

“Everyone’s going Vietnam, Vietnam, Vietnam, but the Vietnamese trade deficit this year is going to grow past \$40 billion toward \$60 billion, and you can reach out in the next few years and see it as a No. 2 after China,” Samet said. “Certainly, if the president is reelected, I would think that’s going to draw his attention sooner rather than later.”

Backtracking from China sourcing won’t be the apparel industry’s only concern in the coming years.

“Every program is on the table and every decision is on the table,” Samet said. “That’s the world in which we’re operating.”

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