



Mr. Trump's Tariff Tantrum: The Right Church, But The Wrong Pew

By

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12/2/2024

Introduction

This article is a follow up to the 10/23/24 publication of "Tariff Truths: The FACTS of the Case". Originally, my "Part II" post was going to list the indirect costs of President-elect Trump's plan to revitalize U.S. manufacturing through universal tariffs on imported goods. Of course, that all changed when he announced 25% tariffs on Canada and Mexico, and an additional 10% on China if they don't act on illegal immigration and fentanyl.

After making the appropriate adjustments in the article to account for Canada, Mexico & China, Mr. Trump then proclaimed that he'd levy 100% tariffs on the BRICS nations should they try to replace the U.S. dollar as the world's currency (Brazil, Russia, India, China, South Africa et al.). This updated article lists some likely outcomes should Mr. Trump carry out his proclamations. It ends by offering options for Mr. Trump to consider in the pursuit of his goals.

Unfortunately, more threats of tariff increases will only exacerbate the costs and unintended consequences I set out to explain in the first version of this Part II article. At this point, what we're experiencing can only be described as a "Tariff Tantrum" whereby the incoming 47th President thinks that high customs duties are the sole panacea for all things troubling the United States. As the global economy will soon find out, they're not.

To be clear, I'm not disputing the fact that the U.S. surrendered much of its industrial might to cheap imports decades ago and that we need manufacturing back in the U.S. Also, illegal immigration is a crisis that's been going on for years and it must be solved. Tragically, there isn't a family in this country (my own included) that hasn't been impacted by the scourge of legal and illegal opioids, so fentanyl has to go. Finally, the almighty USD must continue to reign supreme.

What I am saying is that burdening Americans with more duties isn't the way to solve our issues. Basically, asking Jane Q. Public to pay for something she has no fault in is like fining a homeowner because her neighbors are brawling in the middle of the street. No one's arguing the need to fix our problems and it may be that the *strategic* use of tariffs is part of the answer. For the reasons discussed below, the extreme nature of **Mr. Trump's Tariff Tantrum** is not.

Before continuing, let me state that this article is NOT a doomsday prediction of economic ruin. What's written here reflects how businesses reacted (on a much lesser scale) to the tariffs Mr. Trump implemented in 2018 and more importantly, how things could turn out if he enacts a sweeping tariff program that is dramatically larger than what we experienced back then.

The Difference Between the Original Trump Tariffs and What's Looming in 2025

In recognition of the varying opinions on tariffs and the points made by folks that are supportive of them, it's important to address the Section 301 Tariffs put in place against China by Donald Trump in 2018 (aka "Trump Tariffs"). Specifically, people are asking a fair question: *"If the 25% Trump Tariffs weren't inflationary in 2018, why would they be inflationary in 2025?"*. There are several answers to this question, one of which caught me a bit off guard.

As noted in Part I of this series, U.S. importers were able to offset the 2018 Trump Tariffs by renegotiating lower prices with their Chinese suppliers, cutting other costs in their businesses and/or passing the expense on to their end customers. While tariff costs were definitely tacked on to the sales price of imported goods, the increases weren't high enough to trigger inflation.

I must confess to being one of the people that thought the Section 301 Tariffs would be more impactful on inflation. In retrospect, there was one key point I missed in forming this opinion and to be honest, I should have known better. In addition to the above reactions to the Section 301 Tariffs of 2018, the gross profit that U.S. importers were making on Chinese goods was so high that they were able to "take a haircut" on profits, but still make money.

In support of the above statement, I'll say that in my work as a licensed U.S. Customs Broker I see the invoices that overseas suppliers issue to their U.S. buyers. And whereas Customs regulations prohibit my sharing of importer-specific details, all one has to do is compare those supplier invoices to the sales price of imported goods to see that U.S. importers have been making bank for years. Basically, the Trump Tariffs were a body blow, but not a knockout punch.

Of course, the other option back in 2018 was to stop buying goods in China and shift sourcing to places like Vietnam, India or Mexico. This choice goes a long way towards explaining how Mexico replaced China in 2023 as America's number one trading partner. Finally, U.S. importers could "Reshore" and buy goods domestically in the U.S. (assuming those goods were available in the States, which turned out to be a big assumption).

With all the above said, there are several differences between the Trump Tariffs of 2018 and what's in store should he go through with his new plans. Let's hope that all this bluster is a tactic he's using to set the table for negotiations with foreign countries beginning on January 20, 2025. In the meantime, here's a few things that are different about the Trump Tariffs 2.0...

- First off, the Section 301 Tariffs of 2018 were limited to China. As such, U.S. importers had options in terms of other countries they could import from. Again, the beneficiaries of that loophole were countries like India, Mexico and Vietnam. With the President-elect now threatening tariffs on countries around the world, importers will have no sourcing alternatives and will be compelled to foist tariff-born costs on to the consumer.
- Continuing on China, just because U.S. importers took a 25% tariff hit in 2018 doesn't mean they can absorb more in 2025. Bearing in mind that the original tariffs were 25% on top of existing duties, 10% more would be a minimum of 35% in customs fees. Should the whole BRICS mess transpire, that's another 100% for a total of at least 135%. Without other sourcing options, there would be nowhere for U.S. importers to turn and the resulting cost will be borne by consumers.

- Turning now to Canada and Mexico, there's the small matter of the updated agreement that exists between our three countries (USMCA). Heralded by then-President Trump as, "The most modern, up-to-date and balanced trade agreement in the history of our country", it appears that he is going to renege on a deal he took sole credit for. Because it's a trade agreement, any unilateral changes represent a material breach and only invites retaliatory tariffs from Canada and Mexico, thus hurting our exports to them.
- It must also be pointed out that the "historic negotiation" of USMCA kept the zero-duty status of the vast majority of USMCA-origin products moving between our three nations (which may lead one to wonder exactly what it was that Mr. Trump "negotiated"). As two of America's top three trading partners, the new 25% tariff increase on Canada and Mexico would be a significant hit to American consumers.

History as Teacher: What to Expect From the 2025 Trump Tariffs

To reiterate a point from my first article, the cause & effect relationship between tariffs and higher prices is by far the easiest to identify. With +300,000 registered importing companies in the U.S., you can be sure that they all went through the 2018 cost exercise described earlier, and that they're planning for Version 2.0 right now. In fact, many companies have already stated that should new tariffs go through, they'll increase the sales price of their goods in kind.

Stated more sarcastically, major importers like Five Below will have to change their name to "Eight Below" and Wayfair will soon rebrand as "Way Unfair" because they won't be able to maintain current pricing after the tariffs hit. That line would be funny if the joke wasn't on all the American companies and consumers that will soon feel the direct impact of increased tariffs.

What's even less amusing is that there are indirect costs and consequences attributable to the application of tariffs on multiple countries. Below is a list of what those indirect costs and consequences will be. I must point out again that this listing is not a doomsday prediction. It describes the experiences I had working directly with importers in 2018. Given the draconian nature of the Trump Tariffs 2.0, the reader can decide if any of it falls in the realm of possibility.

Some companies will simply go out of business. With nowhere to turn from a product sourcing perspective and unable to squeeze more costs out of their operations, or pass on tariffs to end customers, some import firms will go belly up.

The cost of an import bond will go through the roof. U.S. importers are required to post a bond with U.S. Customs & Border Protection to cover customs duties owed should an import company not pay those duties. This was unequivocally the case in 2018, to the point where the bond underwriting community demanded huge cash deposits to cover a bond. This drain on cash flow will suck funding away from other areas of a business that require working capital.

Companies will institute a hiring freeze. When cash is short, the natural reaction in most any business is to put the brakes on any new hiring. Not exactly a stimulus for economic growth.

No raises and paltry (if any) bonuses. After the cost of imported goods, payroll represents the lion's share of a company's expenses. Given this financial reality, when things go sideways in a business, raises are cancelled and bonus money goes down. For a country where consumption accounts for 60% of Gross Domestic Product, this doesn't bode well, either.

Salary cuts and in dire cases, layoffs. This happened on a limited basis in 2018 and given the extreme nature of 2025's tariffs, it not unreasonable to think it could happen on a larger scale next year.

No new expenses. The implementation of this policy goes hand in hand with payroll-related cost cutting. Should the economy turn bleak because of Trump Tariffs 2.0, things like new computers or laptops for employees, upgrades to software, worker training, and travel & entertainment will all go out the window. It happened in 2018, so don't be surprised in 2025.

Capital expenditures get put on hold. If there's one thing that businesspeople like it is predictability in their operating environment. And when things get unpredictable (e.g. when tariffs are even threatened, never mind implemented), executives stop making investments in areas like capital equipment, facilities expansion, or Enterprise Resource Planning software. Be advised that this is already happening and will only worsen should the tantrum become reality.

Right Church, Wrong Pew

As my Irish-Catholic mom used to say when describing someone who was partially right about something, that person was "In the right church, but sitting in the wrong pew". In this instance, President-elect Trump is 100% correct that we need to revitalize manufacturing, eradicate opioids, solve the immigration crisis and maintain the USD as the world's go-to currency.

Consistent with my mom's line, all's I'm saying is that the universal application of high tariffs as the sole solution to our problems is not the way to go. As noted in my original article, I am in favor of applying tariffs in the form of countervailing and/or anti-dumping duties as part of a multi-pronged strategy. Taken in conjunction with other measures, tariff pressure can play a role in achieving Mr. Trump's goals. Throwing a stand-alone tariff tantrum will not.

In the spirit of not just bitching about tariffs without offering some sincere solutions, the rest of this article offers three ideas that President-elect Trump might consider...

Eliminate the "De Minimis" loophole. "De Minimis" is a U.S. customs regulation that allows on-line shoppers to purchase goods directly from overseas suppliers without having to clear customs or pay duties if the order is less than \$800 in value. By pure coincidence, the COVID-19 onslaught of on-line shopping increased the number of shipments qualifying for de minimis exponentially and now, millions of small parcels are cleared in bulk into the U.S. every year.

Because most de minimis shipments originate in China, bad actors have taken up the tactic of sneaking small fentanyl shipments into the thousands of legitimate de minimis orders that enter the U.S. daily. I've been in the U.S. warehouses that receive de minimis shipments and there is no way that U.S. Customs & Border Protection can inspect 50,000 small packages every time a cargo aircraft or ship arrives to U.S. shores.

Let's get drastic about stemming the tide of fentanyl from China (and Mexico, too, for that matter) and eliminate the de minimis loophole on 1/20/25. That means that foreign companies will have to ship goods to the U.S., clear goods through Customs, pay duties as a registered U.S. importer and then fulfill orders from U.S. warehouses. This would not only help with the fentanyl crisis, it will also force companies to hire U.S. workers, thus creating more jobs.

Promote the expansion of manufacturing-based Foreign Trade Zones. Created in 1934 to stimulate hiring during The Great Depression, there are currently 270 authorized “FTZs” in the United States. With the goal of creating manufacturing jobs without imposing crippling duties on the importation of raw materials that go into making finished goods, the promotion of FTZs offer Mr. Trump a viable compromise.

Operating under the auspices of U.S. Customs & Border Protection, both domestic and foreign-sourced raw materials are allowed into a manufacturing-oriented FTZ, without having to pay customs duties on any imported raw materials. When finished goods are produced from imported raw materials, those finished products can be exported without paying customs duties, or entered into the U.S. by paying a lesser duty amount on the finished item.

The rationale for allowing for the duty-free import of raw materials into an FTZ is that it makes manufacturers more competitive, which in turn creates more State-side jobs. Those jobs generate additional revenue sources for Uncle Sam in the form of payroll, property and income tax. Also, if finished goods are entered into the U.S. from an FTZ, those goods still pay customs duties, albeit at a lower rate as compensation for creating the aforementioned revenue sources.

FTZs have survived since 1934 for all the above reasons and it makes sense to continue to incentivize U.S. manufacturing through more extensive use of their benefits. To summarize, FTZs make manufacturers more competitive through reduced duty rates, create jobs and increase revenue sources for the U.S. Treasury. That sounds like it could help Mr. Trump, no?

Naturalize illegal immigrants and charge a new tax earmarked for Social Security. This is by far the most controversial of my three suggestions, so please just hear me out. First, I don’t have the answer to the daily flow of illegal immigrants arriving to the U.S. southern border. Pursuant to Article I, Section 8, Clause 4 of the United States Constitution, that responsibility falls to Congress, so for now, we’ll let the geniuses in D.C. figure that part of the problem out.

As a suggestion, they might ask what compels someone to risk his life and walk 2,000 miles (or more) on the outside hope of getting into the U.S. Vice President Harris was charged with uncovering the root cause of this crisis and apart from publishing a “Root Cause Strategy” that throws new money at an old problem, not much has been done by her crew, either.

While we wait for the Washington Brain Trust to come up with a bi-partisan solution to the ongoing flow of illegal immigrants, I’ll offer a suggestion for how to legitimize people that are already in the country illegally and are working in the shadow economy. Let’s start by getting all the requisite confessions and admissions of guilt out of the way.

Illegal immigration is just that. Illegal. People “cheated” and “skipped the line” starting more than a century ago when this problem first began. And the reason for that is the U.S. government allowed it to happen, with every new Congressional cycle kicking the can further down the road. The question now is how Mr. Trump will round up and mass deport eleven million people, many of whom have been here for decades and don’t have anywhere to be deported to.

Look at it this way. Let’s say that seventy five percent of the eleven million folks illegally in the U.S. are working but not paying their full tax burden (if anything at all). With the U.S. Treasury tapped out and bereft of a pot to piss in, the tax revenues from naturalizing all these hard working (North) Americans are a missed opportunity that repeats itself every day.

Also, with President-elect Trump's Manufacturing Renaissance just around the corner and unemployment at roughly 4%, we're going to need thousands of more workers to produce all the goods that will come flooding back to U.S. shores on 1/20/25. Where are all those workers going to come from, Poland? No offense to Poland, but probably not.

In recognition of the logistical, financial and moral realities of booting eleven million people out of the country, let's just admit our shared guilt for everything that's gone wrong and naturalize the people that are here. To avoid yet another rush to the border, announcement of the final date for amnesty would have to be from one day to the next, with everyone still south of the border being ineligible. People already in the country illegally will also have a time limit on presenting themselves and if they get caught after that, they'll have to be deported.

From there, citizenship comes with some provisos. First, convicted criminals and terrorists must go, immediately. In exchange for citizenship, people must work and pay a (nominal) additional tax for a period of years. More importantly, companies hiring immigrants for the first time will also pay an extra tax. Firms currently employing undocumented workers will get a pardon, but they'll have to pay an even higher fee. Any employer caught with undocumented employees after that will be subject to penalties and/or criminal prosecution.

To assuage the Americans that are angry about "illegals" being in the U.S., all monies collected (taxes, penalties, etc.) must be earmarked and sent straight to the Social Security Administration. With Social Security slotted to be insolvent by 2033, this idea could help keep payments flowing to retirees. As my mom also used to say, "Touch my wallet, touch my heart", so it might just be that some cash-inspired empathy for illegal immigrants will finally surface.

I don't know for sure, but this last suggestion sounds better than trying to give eleven million people the heave ho back to countries that are already in dire straits. Hopefully, the rest of what's included in this article is equally reasonable/believable for people of all persuasions.

First published on December 2, 2024. All rights reserved.

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