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Gail Cole • Nov. 05, 2019

There seems to be no end in sight for the ongoing global trade war. Indeed, President Donald Trump has suggested there won't be a deal before the 2020 presidential election. Businesses, therefore, should plan for continued uncertainties with supply chains.

What's happening? A brief history of tariffs and the United States-China

Smoot-Hawley Tariff Act dramatically increased tariffs on more than 20,000 U.S. imports and sparked retaliatory tariffs in approximately 25 countries. It bred ill will and is widely believed to have had a disastrous effect on the global economy. Eventually, the U.S. ditched protectionist economics and embraced a policy of freer trade.

Now protectionism is back, along with higher tariffs. Chinese imports are a primary target, but tariffs have been proposed for or imposed on a wide range of products from many countries, including aluminum from Turkey, steel from Canada, and airplanes, cars, and wine from the European Union.

Other countries are retaliating in kind. The EU raised tariffs on American denim, motorcycles, and peanut butter; Russia put tariffs on American fiber optics and other equipment; India raised tariffs on American almonds, apples, and walnuts. Turkey doubled tariffs on more than 20 American goods in 2018, then promised to reduce them in May 2019. What will happen next week is anyone's guess.

It's a challenging environment for businesses.

What can you do?

When tariffs increase, businesses generally have one of three options: Absorb the higher cost, increase prices to pass it on to customers, or rework the supply chain to avoid the higher tariffs. There are advantages and disadvantages to each.

Absorb the higher cost

Higher tariffs typically translate into more costly inputs and end products. If you're worried the market won't bear price increases, you can absorb the cost of the tariffs. This can be done individually, or the cost can be split with suppliers if they're willing.

The advantage to absorbing the higher cost is that customers won't get sticker shock

additional expenses. This can be done as an all-out price increase or a temporary surcharge that can be eliminated if the tariffs are.

The advantage to increasing your prices is that you'll cover your costs.

The disadvantage, of course, is that you risk angering customers and losing contracts.

Rework the supply chain

Finally, you can try to rework your supply chain in order to avoid the tariffs altogether. You can move your operation to another country, reroute products to avoid crossing certain borders, or switch suppliers.

The advantage of developing a more resilient and supple supply chain is that you'll be in a better position to respond to unexpected future challenges, such as extreme weather or natural disasters. At least you'll have practiced coming up with creative solutions.

The disadvantage, of course, is that it's challenging and expensive to move operations; rerouting products can delay shipments; and switching suppliers can affect lead times or the quality of your products. These are big actions that should be considered in relation to your long-term business plan.

Develop an action plan

Perhaps the most challenging aspect of the current trade war is its volatility. No one knows when a new tariff will be announced, what it will impact, or how affected countries will respond. You need to be alert and agile as you consider the best way to respond to the global tariff war.

Learn more by reading this Gartner report, How Your Supply Chain Should React to