

# Trump: A Lose-Lose Plan for the Global Economy

How do international companies react?



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Protectionism destroys complex supply chains yet these are the calamitous plans of the US president. How will international companies react?

Mexico is nervous. Annual exports to the United States of approximately US\$300 billion are at risk because, in his bid to “make America great again,” newly-elected President Trump is planning to introduce stringent protectionist measures. But what he sees as getting a better deal for the US amounts to a real threat to companies operating in Mexico.

One such company is h&z client Navico, a global market leader in marine electronics that serves the US market from its Mexico base. Since Trump announced his protectionist intentions, a great deal of uncertainty has seeped into Mexico from its larger northern neighbour. The potential effects on Navico are severe. The company imports almost half of its value add in the form of components from Asia. The goods are unloaded in the US before being transported overland to its plant in Ensenada, Mexico, so that the finished products can then be sold in the US. The high import tariffs planned by Mr Trump would hit Navico both ways.

Nothing is certain yet. Nobody knows if the Trump administration will really follow through with its protectionist measures by imposing tax penalties of up to 45 per cent on imported products. Despite occupying the highest office in the US, Mr Trump still acts like a real estate deal maker who likes to scare his opponents with unreasonable demands to make them feel that they still got lucky in the end.

However, it is cause for concern that the automotive manufacturer Ford has halted construction of its plant in Mexico for the time being. And then there is the fact that the Mexican government is considering what incentives it could provide for manufacturing businesses in the country in order to counteract Mr Trump’s tax policies. These are both clear indications that the threat is being taken seriously and reason enough to get well prepared.

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## US companies are protesting as well

Many economists and other trade experts are currently busy explaining to the president that his politics would also make the semi-finished goods for US factories more expensive, which would either result in increased prices for American consumers or declining company profits and fewer jobs. The biggest importers are often also the biggest exporters. For example, the German manufacturer BMW does not only manufacture vehicles for the US market in its huge Spartanburg, South Carolina, plant, but for the whole world.

Then there is the time factor to consider. It takes a long time to qualify and certify new national suppliers but the complex logistics and considerable costs involved mean locations cannot be moved at the drop of a hat. In discussions with h&z, one large German aerospace supplier said: "We are not taking Trump's threats seriously at all." The company says that as a supplier to Boeing they are practically irreplaceable. The exchange of proven system components in an airplane is a prospect that neither OEMs nor operators welcome. "The US would be shooting itself in the foot and would harm its own companies," said an executive from the German aerospace supplier. The same would surely apply to a number of other high tech companies in the US.

The equation representing the global supply chain is a complex mix of specifications, quality, delivery capabilities, and price and has been optimized over the course of many years of globalization. Then there is the insight that protectionism limits competition and thus shackles the inventiveness and efficiency of US companies. This would impact US employees because innovators appreciate competition and could leave the country as a result. So in the end, this would hit US consumers in their own country the hardest. In the worst case scenario they would encounter domestically-made products on the shelves which would be less innovative but more expensive. Chain stores such as Wal-Mart and Sears, who use globally optimized supply chains to offer their customers the best products, fear this as well.

It is also questionable if the Trump government would prevail in a trade war with China since the US is highly dependent on the raw materials that are being mined there.

"Trump's plans are definitely not thought out very well. But we are prepared, should they nevertheless become a reality," said Jim Brailey, Executive Vice President at Navico. He said that final assembly could be moved to the US or to an existing plant in Eastern Europe if restrictive measures were directed only against Mexico. The additional logistics costs would still be less than the proposed tax penalties.

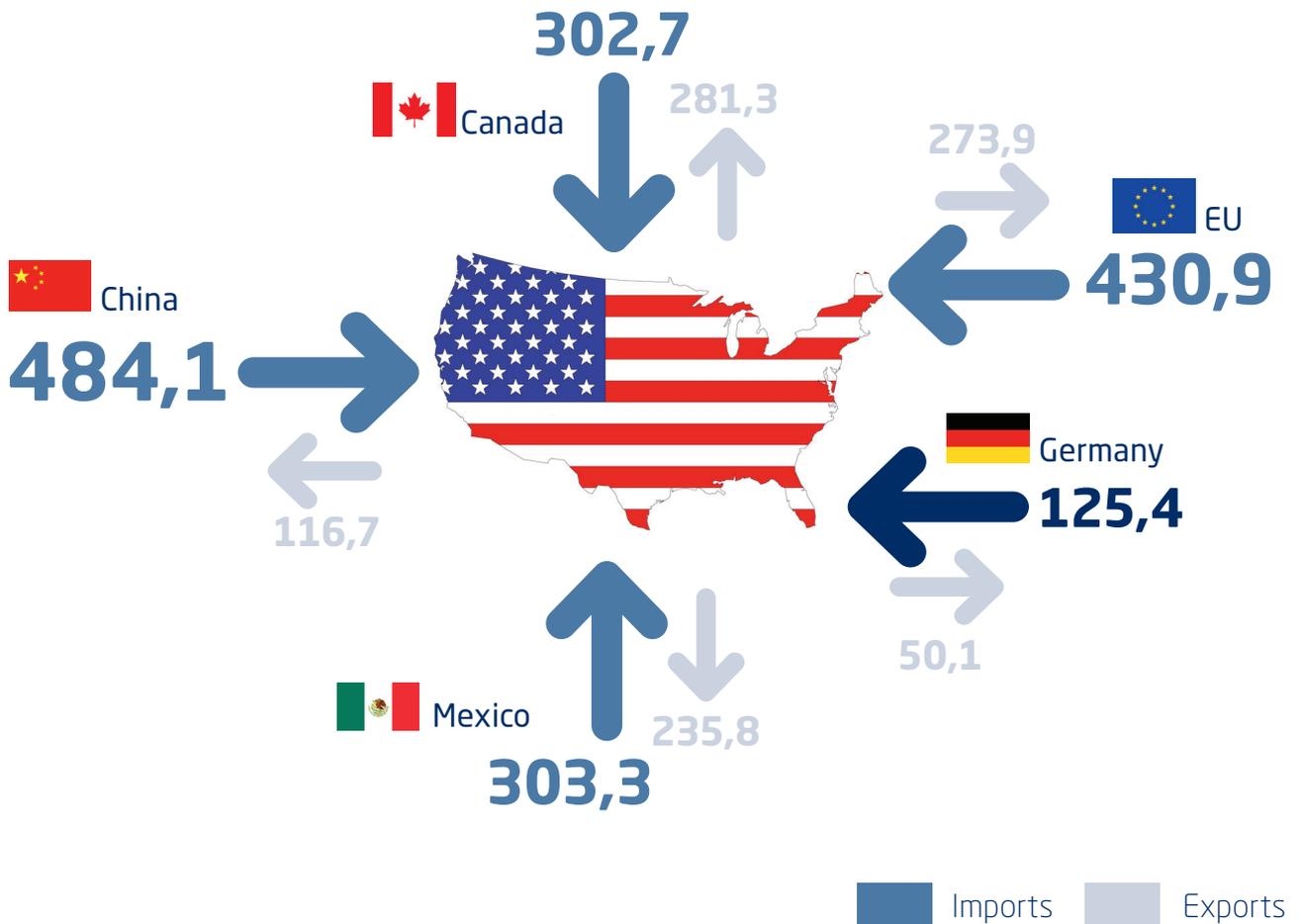
All companies should prepare themselves. The likelihood that one's own supply chain is impacted in one way or another is real, but at this stage only the Trump administration knows exactly how real it is

## Thinking in scenarios

So what can be done to prepare? Different companies are taking different approaches to these risks and the uncertainty they breed. Some are adopting a wait-and-see attitude, while others feel less threatened because of their importance as an employer of domestic workers in the US. Siemens, with its 60 production sites and 50,000 employees in the US, is an example of the latter. Naturally, it does not make sense to panic but it seems reasonable to think about the potential scenarios this new world order presents.

## Imports and Exports USA

Billion USD



Source: US Ministry of Trade (whole year 2015)

Network simulations can be conducted to analyse and evaluate production, considering possible combinations of tariffs and supplier structures as well. The same applies to site relocations and their effects on the total costs within the supply chain. The structured documentation of risk areas and individual risks with subsequent quantification and evaluation allows for the formulation of scenarios that are followed by detailed strategies and a concrete catalogue of measures.

But it is not just about tariffs. Mr Trump is putting the whole economic future of the US to the test. Discriminatory tax measures have already been alluded to. If this happens, how will the US currency develop? What consequences will this have for interest rates? Will we see a brain drain, with talented workers leaving the country? Will the US administration's protectionism provoke retaliatory measures from overseas?

The head of Siemens, Joe Kaeser, appears unfazed. He travelled to Mexico and announced the company's investments as planned. At US\$200m over a 10-year period the amount is relatively modest, but the Mexican government was grateful for the gesture. And who knows, maybe such loyalty will pay dividends down the road.

Some companies expect the newly elected US president to remain in office for only a short term, or that he will not be all that unreasonable. In fact, it seems hard to imagine that Trump will decide in favour of a situation where everybody would lose in the end.

But he is a deal maker, a poker player, who will accept losses as long as he ends up profiting. With such an opponent, it is advisable to have a good hand or, as in chess, to think five moves ahead.

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## Impressum

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