

U.S. Execs on China, Trade & Tariffs: Focus on the Long Game

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U.S. manufacturing experts say when it comes to China, trade and tariffs, industries such as electronics should keep their eye on the long game.

“The [Trump] administration is playing a larger chess game than it is given credit for,” said Tom Derry, CEO of the [Institute for Supply Management](#). “It’s not just about aluminum and steel or any single product category. They want to deal with the bigger issues, such as IP theft and the requirement that foreign companies bring in Chinese co-investors. The only way China will discuss the bigger issues is if you can bring them to the bargaining table.”

Shortly after the U.S. threatened tariffs on imported [aluminum and steel](#), China said it would impose duties on a number of U.S. exports, including electronics components.

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Prices have already been inching up due to component shortages; tariffs would further squeeze buyers of electronics components.

“Electronics components are the heartbeat of technological innovation and continued global economic growth,” said the Electronic Components Industry Association in a statement.

“In today’s digital world, nearly every industry utilizes electronic components and the supply chain for such components is globally interconnected and complex. As a result, the imposition of tariffs on electronic components will have global consequences for businesses and consumers alike, adding friction and costs to the supply chain that can hinder economic growth for all involved.”

Still, U.S. manufacturers are tired of unfair competition. “In many cases we can get more favorable terms from our Chinese suppliers than we can from U.S. suppliers,” said



Tom Derry, ISM

Steven Rosen, co-CEO of private equity firm Resilience Capital Partners, which owns several U.S.-based manufacturers. “They can also sell products for less than the cost of the materials. You have to ask yourself ‘how can they do that?’ You know that there are subsidies going on somewhere.”

Tariffs—Pros and Cons

Tariffs, experts warn, could have unintended consequences -- both positive and negative. “If we sit still and try to codify a set of rules that freeze the economy, that would be misguided,” said Derry. “Economies are evolutionary and always changing. If we try to codify standards today, we need to think about rules that apply to all sides regardless



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of the development and the evolution of technology. Economies over time eventually level the playing field no matter what. Let's face it – we can't foresee the kind of technology that is coming online -- at best we might have some insight out to 3 to 5 years."

On the other hand, tariffs could prompt a wave of reshoring in the U.S. "This could stir up localization of the supply chain so companies can avoid tariffs," Derry said. "They would build stuff closer to the markets they serve. Combined with the recent tax reform package, the U.S. looks like a pretty attractive place to relocate manufacturing."

If tariff talks lead to better IP protection, electronics companies will consider that a win. It's no secret that China has capitalized on the flow of high-tech companies to its shores. "Inevitably, through questionable means, Chinese companies will emulate what [foreign companies] have achieved," said Derry. "You have to go into China with your eyes wide open. They are not your partners—they want to be your competitors."

The electronics industry is a bit more direct—IP theft often leads to [counterfeiting](#), particularly the counterfeiting of electronics components. "Counterfeit electronic components pose a significant public health/safety and national security risks, including cyber-security concerns," said the ECIA. "The association supports a bilateral trade agreement that protects intellectual property rights, promotes fair business practices, and combats counterfeiting."

China has been pretty transparent about its ambitions regarding high technology. "Look at China 2025," Derry said. "They are developing centers of excellence, and the area around Shenzhen has become a high-technology hub. They're building up their own expertise and they are becoming innovators in certain technologies so they can compete on equal footing around the world. China wants a [dominant position in semiconductors](#) and they are going to go after it."

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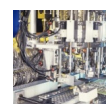
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Winds of War?



Steven Rosen, Resilience Capital Partners

Few experts believe the U.S. and China will engage in an all-out trade war. The threat of U.S. tariffs was the opening salvo toward a set of long-term negotiations. “China had no option but to

respond to U.S. tariffs,” Derry said. “[China] understands what is happening and they have been moderate in their response to the U.S. They have to respond in kind—they have a responsibility to their people—but China believes in fair trade. In fact, China has become a leading proponent of free trade.”

The U.S., he added, must continue to out-innovate China.

“I don’t believe that two smart participants can’t come to a reasonable agreement on how things should be handled,” said Rosen. “Unlike other conflicts, this one can be solved by a reasonable commercial settlement.”

However, IP protection must be part of any trade agreement. “Inside every one of our companies we have entrepreneurial people developing new products,” said Rosen. “Everyone has an R&D budget and they focus most of that on creating IP. Protecting that on a global scale is imperative.”

“I believe in free trade and the interconnection of global businesses,” Rosen added. “I’d hate to see [China/U.S. tariff discussions] escalate from here. It seems that everyone is posturing, but ultimately negotiations should result in global fair trade.”

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"I'm more concerned about NAFTA," he added.

For electronics, China is simply too big a market to ignore. "China is an important participant in the global electronic component supply chain," said the ECIA. "Both China and the United States benefit when economic competition is non-discriminatory and supports the authorized manufacture of electronic components."

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