How to Navigate Tariffs? Stay the Course

by Stanley Chao

President Trump is threatening more tariffs if the negotiations with President Xi don't go well at the G20 summit in Argentina. All of this back-and-forth saber rattling is wreaking havoc on the stock market, leaving Western companies, as well as Chinese ones, in a state of turmoil. Western businesspeople are asking: *Do we postpone our entry into China? Should we curtail our China investments? What's our long-term strategy?*

These are the types of questions I'm getting from shrimp fishermen in Louisiana, potato farmers in Idaho, and auto parts manufacturers in Detroit. I'm even getting inquiries from Western European and Middle Eastern companies concerned that all this uncertainty will cause a China recession and adversely affect their local China operations and sales.

No matter what the industry or product, my answer to the fears and chaos around China is always the same: stick with your long-term strategy. Don't let a little rogue Trump speech or trade war rumor change your opinions on why you decided to do business in China.

Even with tariffs, the Chinese appetite can still afford succulent Maine lobsters and Napa Valley's award-winning Cabernet Sauvignon. Even with tariffs, Chinese moms will still buy foreign-made formula, yogurt, and cheeses for their princelings. Likewise, the Chinese government is likely to subsidize the higher soy bean and airplane parts prices so its farmers can feed their pigs and Air China can continue to service their fleet of 737s. Last I heard, having enough pork to eat and airplanes to fly for its 1.4 billion people was still in the Central Government's best interest. Sure, we may a see few hiccups here and there. A couple thousand tons of razor clams may "accidently" spoil while sitting in Chinese customs, or China's state-controlled airlines may favor Airbus over Boeing for a few more airplane orders. But these will be the exceptions rather than the rule.

As I write in my book, *Selling to China*, one of my key rules for doing business in China is to think long term but react short term. China is in constant flux, so don't let any momentary antics deter you from sticking to your 5–10-year business plan. I consider this tariff war as a speed bump on a long, long journey. Stay the course as long as your products and services continue to whet the Chinese consumer's appetite or promote the present policies of the Central Government. As I told one nut farmer who was worried that the tariffs would affect his China orders, "Chinese consumers loved pistachios before Trump, they love them during Trump, and they'll love them after Trump!"

My confidence that companies should maintain their long-term strategies and goals comes from what I witnessed firsthand after the Tiananmen Square riots. I saw multinational companies and investment banks bail out of China. They scrapped billions of dollars worth of infrastructure projects, sold or simply gave away manufacturing equipment, warehouse and manufacturing space, and did everything just to wash their hands of China and the stigma of being associated with a country that violated human rights.

But not all companies ran away. Many stayed—and bought the equipment, took over the rental leases, and invested more into their business in China. They not only stuck with their long-term plans, but doubled down on their belief that China would someday become an economic superpower. It is now these companies—Coca-Cola, Hilton Hotels, Philips Electronics, and Volkswagen—that are reaping the benefits in the second largest economy in the world. They didn't let one event, as horrific as it was, alter their long-term strategy.

Sticking to your long-term plans, however, doesn't mean you just blindly do the same old things day in and day out. Look to tweak short-term actions based on changes in China's economic, political, or legal environments. You may make these changes daily, weekly, or monthly, but act and react to these unforeseen events. For example, I'm currently assisting an auto parts manufacturer to reroute its parts to a Singapore or Hong Kong distributor who then may ship to China at reduced tariff rates. This reactionary side-step to offset tariffs might work for other nonperishable goods on the tariff list, like cigarettes, baby formula, and pet foods.

Another tweak would be to export half-finished products or work in progress (WIP) to China for final assembly. This way, a servo motor, for example, may not be considered a servo motor to a tariff-slapping Chinese customs official until the casing or transformer is attached. This may also work for other manufactured goods like electric vehicles, auto parts, and heavy machinery.

And this local outsourcing strategy may actually have unattended longer-term benefits. China's implementation of its One Belt One Road program will give Chinese companies and "made in China" products access to over 70 countries participating in this new trade and infrastructure pact. Who would have thought that a small change in your China strategy alone could open up markets in the next few years in such faraway places as Nigeria, Uzbekistan, or Indonesia?

I'll continue to take calls from jittery businesspeople and I'll continue to tell them to stay the course. We'll get through these difficult times. Just don't make any sudden moves or do anything haphazardly that you'll regret in a few years. Cooler heads will prevail as both sides growl and show some teeth. Ultimately, however, both sides will come to some face-saving compromise and all will be good again between the two superpowers. In the meantime, look to tweak, sharpen, and modify your short-term actions and goals in China to counter this temporary confusion.