NO 'SILVER BULLET' IN US CHINA TRADE WAR

There is no "silver bullet" in the US China trade war but technological efficiencies can help offset US tariffs costs, according to an industry expert.

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Trade tensions between China and the US have been escalating since early 2018, and companies have had to evaluate supply chains due to potential US tariff increases on Chinese imports.

This has prompted companies to consider solutions to tackle the additional costs incurred by tariffs, including moving production out of China.

Kevin Beasley, CIO of enterprise resource planning (ERP) software firm VAI, told SM: "There's not going to be one silver bullet for most. You'll have to look at who they're sourcing from, where they can supply from, what they can do to streamline their operations to reduce the impact of it."

In the case of a 30% tariff, the pricing will also play a factor so procurement professionals and the people who price the products will have to work together to see where the price will land when the tariff hits, he added.

Google has announced a shift of some production for its Pixel smartphone from China to Vietnam due to cheaper costs, according to the Nikkei Asian Review.

While there are a lot of companies looking to move production, those companies that have a better chance at success are the ones that outsource a lot to multiple suppliers or have production spread across multiple countries such as China, Malaysia, Mexico or Europe or US, said Beasley.

However, he emphasised that for most technology firms, especially chipmakers, moving production is not a simple solution.

"To pick up and move production is a very involved process, in terms of supply chains and logistics. Just to move it from China to Vietnam would require firms to look at production scheduling… renegotiate all the contracts, and change all your scheduling as you have to deal with different shipping locales, different transportation methods and different volumes. And that's before finding the facility to move to."

It might take years to reap the benefits of moving production, so many are leveraging technology instead to adjust to the tariff costs. The best outcome that can come from the tariff wars is increased efficiencies for everybody due to investments in technological solutions across the supply chain, he added.

This includes using technology, such as automation, internet of things, robotics and ERP, as well as paying attention to just-in-time inventory to save costs by streamlining inventory management, reducing overhead costs and increasing how fast firms can turn over inventory.

The larger companies will also be able to use data analytics and data modelling to test out what would be the best course of action before making any investments.

“Business intelligence and analytics is a technology that helps you solve this. You’ve got to sit there and look at all your data, and do your data modelling and your what-ifs,” he said.

Beasley gave the example of one vendor who adjusted to the 10% tariff. “They use technology and shipping logistics to at least make up 6% of that tariff, and 4% will get passed on to the supply chain, and down the line, ultimately to the end consumers,” he said.

“We are seeing people extending the access to the data and data collections, getting more real data to be more efficient to lower their costs.”

Marc Ross, senior corporate currency consultant at foreign exchange firm Halo Financial, said: “On 22nd of March 2018, Trump asked the USA trade representative to investigate applying tariffs on $50billion to $60billion worth of Chinese goods. This number is now $300million.”

President Donald Trump used Section 301 of the Trade Act of 1974, saying that China had years of unfair trade practices and listing 1,300 categories of Chinese imports into the US, said Ross.

“Most of these categories being tech, intellectual property and innovation. The Consumer Technology Association has warned that tariffs are set to climb even higher in the coming months.”

Last week, US tariffs on approximately $250bn worth of Chinese imports rose from 25% to 30%. Meanwhile, 10% tariffs on around $300bn worth of Chinese imports increased to 15%, according to The United States Trade Representative.