

Subject: Week 71 learnings - Tariffs  
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Dear All

The news that dominated all discussion this week was about the tariffs president trump imposed on China, moving the tariffs from a level of 10 % to a level of 25 % on \$200 billion. China has retaliated with tariffs on \$ 110 billion from USA, mostly on agricultural goods like soy beans. The agriculture belt is Mr. Trumps vote base. President Trump has used tariffs as a deterrent more than any other US president. I have tried to learn about tariffs over the last few years and here's what I have learnt in this whole exercise.

1. The world's two largest economies , the US at approximately \$ 19 Trillion and China GDP at about \$14 Trillion. The two largest economies warring over tariffs creates uncertainty and has the potential to derail global trade.
2. Tariffs have been around since the 13 th century. The UK had tariffs on wool way back then. The early tariffs were on textiles in many countries.
3. The US could only impose tariffs after the declaration in 1788. Till then the federal government sold land or asked states to fund them. The US imposed tariffs from then till the end of World war 2.
4. Tariffs have been a favorite vehicle whenever a country wanted to protect their local industry, when a country has slow growth or when a country has high unemployment. The US is not in that situation today and it is a hypothesis that the US is imposing tariffs as they see China leading the digital race and feel they need to slow it down. The US is having its best economic growth, ahead of 3 % right now, however wage growth is not at the same levels.
5. The world became more trade liberal after world war 2 and I think that happened because of cargo planes, faster ships, and better storage facilities.
6. In the last ten years, Russia has imposed the highest tariffs , close to 20 %. They have tariffs, import restrictions, direct subsidies from 2013.
7. A result of trade tariffs has been the development of trade blocs – ASEAN, NAFTA, SAARC etc. etc. Small countries recognized that they could not take on the big countries if they didn't support each other.
8. Indonesia has a stated tariff list on about 1300 items, a tariff between 37 and 40 % , while in reality it is closer to low double digits in many cases. Potato has a 50 % tariff. Thailand has a most favored nation tariff of about 7.6 %, Philippines has an import duty of about 12 %, India has a 13.4 % tariff in the most favored nation list and a weighted average of 7 %.
9. The current tariff war will bring in uncertainty, customers could postpone orders or trim orders, we will have to be prepared for that. Customer facing people will have to work hard to secure orders in an uncertain environment. We will have to chat about options must more frequently.
10. There is enough academic evidence to suggest that tariffs don't work !!

Enjoy  
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