How Trump’s trade policies affect U.S. retailers

By David Schwartz, Esq., Samir Varma, Esq. and Scott Diamond, Thompson Hine LLP



Columbus Business First, (April 14, 2017) – According to the National Retail Federation (NRF), the U.S. retail industry comprises nearly 4 million establishments, supports 42 million jobs and has an impact of $2.6 trillion on the U.S. gross domestic product (GDP). In Ohio alone, the numbers are significant – more than 135,000 retail establishments support 1.6 million jobs and contribute 16 percent to Ohio’s total GDP.

Because retail plays a critical role in the U.S. economy, the industry is watching with great interest as President Donald Trump unveils his trade agenda. As we move through the second half of the president’s first 100 days in office, let’s review the top five areas in which Trump’s proposed policies will have an impact on trade and, consequently, the retail sector.

5. Rebuilding infrastructure. In today’s global economy, U.S. infrastructure is increasingly critical to the movement of goods to ensure on-time deliveries. The retail industry relies on ports and roadway systems that have been underfunded for decades, and growing logistical demand has created inefficiencies and bottlenecks that have increased retailers’ costs. While his proposed fiscal year 2018 budget released March 15, 2017, does not address infrastructure, Trump in the past proposed a $1 trillion infrastructure package for repairing U.S. roads, bridges, seaports and airports, and the White House has announced that a specific infrastructure plan with a funding mechanism is imminent.

4. Enforcing trade laws. In his 2017 trade policy agenda, Trump criticizes U.S. market distortions caused by unfair trade, such as dumped or subsidized imports, or by harmful import surges. The Trump administration indicates that it will strictly enforce U.S. trade laws, even self-initiating trade remedy cases, and otherwise “act aggressively as needed to discourage this type of behavior – and encourage true market competition.”

3. Tax reform. On Feb. 15, 2017, a group of retail industry CEOs met with Trump to promote tax reform. In particular, the group supports the president’s plan to lower the current 35 percent corporate tax rate, one of the highest in the world. While the proposed House Republican tax reform plan has its problems for retailers, the president and Republicans in Congress appear to be pushing for pro-growth reform that would lower corporate rates and increase GDP, wages and consumer spending.

2. China. Trump indicates that his trade agenda will address China’s trade practices. He has often discussed implementing a 35 percent tariff on Chinese imports, a move that potentially could start a trade war with China. A recent Peterson Institute for International Economics study found that a tariff on imports of Chinese tires alone would cost U.S. consumers $1.1 billion while saving only 1,200 U.S. jobs. According to the study, "[t]he increased costs would likely be passed on to American consumers in the form of higher retail prices."

1. Border adjustment tax. U.S. retailers have voiced vehement opposition to a border adjustment tax (BAT) being proposed as part of tax reform, ostensibly to promote U.S. manufacturing and create jobs. Under the BAT, a U.S. company would be taxed on its U.S. revenues minus its U.S. expenses, leaving global revenues out of the equation. This means revenues a company earns outside the U.S. – e.g., on exports – would no longer be taxed, and imports, which are not U.S. expenses, would not be deducted from U.S. revenues, in essence promoting exports and discouraging imports. The NRF argues that "[the BAT] is a hidden consumption tax, a hidden national sales tax. It will increase the cost of everything consumers buy."

These proposed policies presumably are part of Trump's effort to fulfill his "America First" promise, but they would create a double-edged sword for U.S. retailers. While modernizing infrastructure, aggressively enforcing trade laws and reducing the corporate tax rate would contribute to growth in the retail sector, imposing high tariffs on Chinese goods and implementing the BAT would have a disproportionately negative impact on retailers, who depend on imports that often cannot be domestically sourced. What remains to be seen is whether the Trump administration will expend the necessary political capital to achieve these significant changes or pursue more pragmatic options that will promote fair trade while protecting U.S. business interests.

For more information on how the Trump administration's trade policy is evolving please visit www.TrumpandTrade.com

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Samir Varma is a partner at Thompson Hine. His practice focus includes export controls, economic sanctions and customs, and the Foreign Corrupt Practices Act (FCPA). David Schwartz, partner and international Trade practice group leader, focuses on antidumping (AD), countervailing duty (CVD) and international trade policy. Scott Diamond is a senior advisor in the international trade practice group, focusing on legislative and regulatory processes involved in international trade and foreign direct investment in the United States.