

# Where will your investments take you?

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## **Tariffs: The (dangerous) New American Foreign Policy Tool**



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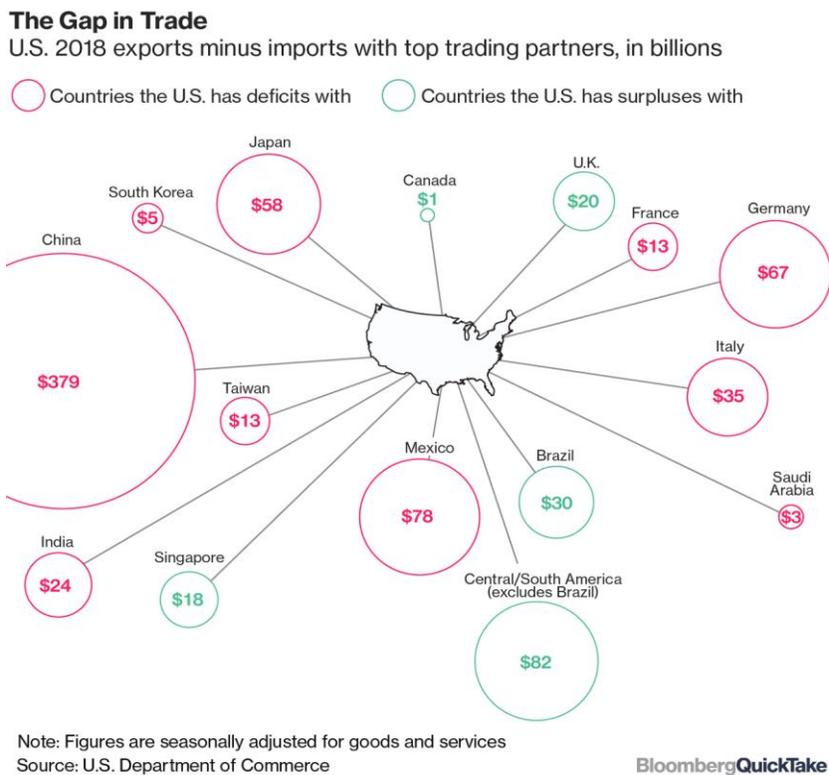
June markets had been dominated by the ongoing ebbs and flows of the US/China trade dispute with each side imposing tariffs on each other. When a Thursday night tweet by President Trump shocked markets by threatening an initial 5% tariff on Mexican goods unless the Mexican president Andrés Manuel López Obrador met American demands on stemming the flow of illegal immigrants into the United States. Although the crisis was averted (and it was a crisis as North America represents the world's largest integrated supply chain), the instability that this will cause the world economy cannot be understated. **The fact that Trump was successful in extracting concessions will embolden the administration** to threaten tariffs on nations not only for economic reasons, but now for **foreign policy objectives**. This is far more serious than even the US imposing Steel and Aluminum tariffs on Canada for spurious **National Security** reasons. Now this is important, because this seems to be the one tool that the White House can wield without any restrictions by congress.

A recent Bloomberg QuickTake graphic citing data from the US Department of Commerce has outlined the countries that the US has the largest trade deficits with. The largest trading gap nation is China followed by Mexico and in third place there is Germany followed closely by Japan. If the recent actions by the US Administration are any guide, we should expect those countries to be in the Trump crosshairs at some point. This behavior should concern every investor as the economic cost, uncertainty and potential inflationary pressure of these measures does have the potential to damage the global economy. This brings me to a point I wanted to talk a little bit about. There seems to be some confusion as to what exactly a tariff is and who actually pays for it.

The rhetoric we often hear is that China, now Mexico will pay the tariffs but that's not how tariffs work. A tariff is a charge placed by a government, in this case the US Government, on a good or class of goods coming from another country, in this case China. The US will collect for what in all intents and purposes is a tax at the border making those goods that much more expensive and it is the end consumer who pays for the tariff. The goal of the tariff is to make those goods uneconomically expensive. Thereby causing those purchasers find cheaper substitute goods either from their own country or from another exporting nation not subject to the tariffs.

China's economy and now others will get hurt due to the lower demand from their now higher priced goods but make no mistake, the originating countries don't pay the tariffs. It is consumers in the in the United States who will pay and isn't the irony of the situation?

Here's that chart of Countries with the largest trade gaps with the United States. I'll leave it to you to draw your own conclusions as to what happens next.



Cheers!