What Tariffs Mean for Small Businesses



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April 20, 2018 5 min read

This story originally appeared on Due

Tariffs are a big topic in the news lately, as the United States, China and other countries have been dragged into a debate on trade deficits, intellectual property theft and other trade-related disagreements. Whatever you think of tariffs being right or wrong, they are rearing their head in the headlines, and both the United States and China have enacted new punitive tariffs against each other. The impact of tariffs goes far beyond newspapers and has real-world effects on businesses of all sizes. Read on to learn how tariffs may impact your small business.

What are tariffs?

Simply put, tariffs are taxes on foreign imports. But there is a lot more to know about tariffs than that. Tariffs are typically very specific taxes on very specific imports and are often targeted to hurt imports or exports from specific countries and specific industries. For example, at the start of his term, President Trump enacted a new 20 percent tariff on lumber imports that specifically targets Canadian exporters to the United States. This means all lumber imported into the U.S. from Canada now costs 20 percent more even though Canada's lumber industry didn't do anything to raise prices.

Proponents would argue that this makes American lumber more competitive. If Canadian and American producers all have the same cost of production and transportation, this gives Americans a 20 percent incentive to choose American lumber over Canadian, thus giving American lumber a boost in competitiveness and a home-field advantage.

But on the flip side, many economists argue that tariffs would just lead to artificial price inflation. Rather than giving American companies an edge, they might just raise prices by 15 percent or so, making their products just a little cheaper than Canadian lumber while increasing their own profits. This ultimately leads to higher prices for Americans when going to the hardware store, building homes and doing anything else that requires lumber.

Downstream impacts of tariffs on small business

If you are in any industry that buys goods that at some point cross an international border, you are impacted by trade laws and tariffs. Free trade proponents argue that there should be no tariffs or trade restrictions, as that would open up

consumers and business purchasers of goods to the lowest possible priced goods available. If one country makes the cheapest lumber (or anything else), we should be able to buy it at the cheapest price possible. This gives countries like China, Mexico and others an unfair advantage, in the eyes of some, as they can pay far less for labor and other production costs. They may also have lower environmental, safety and other standards, which come back to harm both workers and the environment we all share.

The biggest problem with tariffs is they only make things more expensive. If your small business is in the construction field, you can see how higher lumber costs might raise your costs or the cost to complete a project overall. Other products with recently added tariffs include steel, aluminum and solar panels.

For small businesses, this will likely mean higher costs for all. No matter what you do, odds are you use something that includes lumber, steel, aluminum or electricity. Even if you run a small freelance business at home on a laptop, your laptop and other computer parts in the future might cost more as they use steel or aluminum components. The bigger the business, the more it will feel the impact of higher costs due to tariffs.

Industries most impacted by tariffs

There is some good and bad of tariffs depending on the industry your small business is a part of. For producers of newly tariffed goods and products, the new tariffs will allow those businesses to be more competitive, charge higher prices and ultimately earn a higher profit. Most notably this includes lumber, steel and aluminum producers.

But China and other countries won’t see us levying new taxes against their economies sitting down. China recently hit back with new tariffs on pork, wine, stainless steel pipes and more

than 100 more products. So while a few industries in the U.S. got a small boost from Trump’s new tariffs, more industries are feeling the pain of higher prices selling to China. If pork, wine, and other products lose sales to China, they could ultimately go out of business or be forced to charge higher prices when selling to businesses and consumers back here in the U.S.

If your small business is involved in an industry that has a new tariff put in place, you will see an impact. But in the long-run, we all lose out as a whole from any new tariffs.

The fallout of tariffs for everyone else

Tariffs ultimately act as a good thing for a small group of industries and harm everyone else. They hurt our trading partners, individual consumers and trickle down to higher prices for most small businesses reliant on any tariffed products. This is why tariffs are a bad thing, and we as consumers should utilize our voices to stop new ones from driving up our costs the next time we head to the store.

(By Eric Rosenberg)

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