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Retail Industry Weary of Trump's Potential Policies on China Trade

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All eyes in retail will be on how President Donald J. Trump handles trade with China, as he travels through Asia this week.

"If he [Trump] announced a tariff, he'd kill the economy," said Ron Friedman, a partner and retail expert at advisory firm Marcum, told TheStreet last week. "It could be devastating to my clients, who are mostly importers from China. Even the Walmarts (**WMT** - ***Get Report***) of the country will be hurt."

Since arriving in Beijing, Trump and Chinese President Xi Jinping have agreed to $250 billion worth of business deals between the two countries. In a separate deals, Chinese e-commerce company JD.com Inc. (**JD** - ***Get Report***) agreed to buy meat from U.S.-based manufacturers while the U.S. Soybean Export Council also agreed to purchase from a Chinese industry association, Bloomberg reported Wednesday, Nov. 8.

But so far, there have been no reports of Trump and Xi addressing manufacturing, or the "horrible" red ink trail of $370 billion in trade deficit with China that Trump has long lamented. Since the days of his presidential campaign, Trump's rhetoric on trade and other relations with China has been adversarial — a cause for concern among American retailers.

A potential trade war would be catastrophic for American retailers and manufacturers, industry insiders have overwhelmingly voiced. Even if no new trade policy emerges from Trump's visit, his protectionist stance — as evident by the president's withdrawal from the Trans-Pacific Partnership (TPP) — could have the indirect result of ceding the top spot on the world stage to

China. This outcome could be far bigger and grimmer than higher consumer prices and lower margin for retailers, some say.

If tariffs drove manufacturers back to the U.S. as Trump has argued, it wouldn't necessarily benefit American workers, according to Max Zenglein, a research associate at the Berlin-based Mercator Institute for China Studies. "One should expect high levels of automation rather than high numbers of blue-collar jobs," he wrote in an April op-ed in the Financial Times. "For the limited gains of some new jobs, every American would have to pay more for their mobile phones, computers and other products."

Higher tariffs or other trade barriers would also mean tighter margins for American companies.

"Certainly it could increase costs for the consumer here in the U.S. or decrease profits for U.S. manufacturers and retailers," PwC's Curt Moldenhour told TheStreet. "Somebody would need to absorb costs with that in the supply chain, and that's either going to be the consumer or the company that's importing the goods."

Luckily, as least according to Friedman, Trump is probably bluffing. Despite some hot-headed tweets following escalations with North Korea, the president has not introduced any explicit trade policy with China.

"Trump is playing a poker game. A lot of our clients helped build the first [American] factories in China. And now they're just as dependent on our buying from them," Friedman said. "It's in China's favor, too. They need us."

Trump and his family have benefited from the current trade policies with China. They outsource the manufacturing of their namesake brands to multiple countries, including China. The Donald J. Trump Collection, for instance, includes shirts and eyeglasses made in China, Vietnam, Bangladesh and Honduras. The Trump Home line offers mirrors, vases and lights that are listed as being made in China, the Washington Post reported in 2016.

Ivanka Trump's line, which features shoes, clothing and handbags, also outsources manufacturing to China and four other countries, according to a July PBS report. Since

February, multiple retailers have ceased carrying the line, including Nordstrom, Inc. (**JWN** - ***Get Report***) and Neiman Marcus Group, as well as TJX Companies (**TJX** - ***Get Report***) , the parent store of TJ Maxx and Marshalls.

While Trump has alluded to only abstract action against China, his track record on paper, however brief, could already render parts of the U.S. economy vulnerable, some say. When Trump withdrew from the TPP, for instance, he essentially paved the way for China to write trade rules in the Asian Pacific region, according to Mickey Kantor, the Secretary of Commerce under Bill Clinton. In China's inherited position of power, a position the U.S. has held since the end of World War II, China could convince other countries to enact trade barriers with the U.S. or engage in other unfavorable diplomacy. Even the Paris Accord could have this effect, he said, because it's another gesture that the U.S. is shrinking from global diplomacy.

"So far, he's only had emotional reactions in regard to [issues with] China," Kantor added. "China is affected by [our withdrawal from the] TPP, because we created a vacuum that China is filling."

China is aggressively gathering resources, establishing relationships and building market share on the world stage, he explained. "Because we've dropped out of the Paris Accord and the TPP, and now [are] threatening to drop out of NAFTA, countries believe they can't rely on us as a negotiating partners. So they're looking at China to fill the void."

Not everyone shares the gloomy outlook. According to Moldenhour, globalization may be already too embedded in the world economy to be shaken by trade barriers, and there could be positive outcomes, he said.

"The conventional wisdom is if trade barriers go up, it adversely affects the trade environment," Moldenhour said. "Based on our dialogue with clients, we think we could actually see more M&A activity, used as an alternative to trade."