# BRACE FOR IMPACT: HOW TARIFFS ON CHINA COULD IMPACT U.S. CONSTRUCTION

**The threat to contractors remains real.**

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The trade policy in the United States is, for lack of a better word, fluid. The media does a valiant job attempting to compress complex issues into concise news articles, but many of the nuances behind various trade deals and negotiations can be lost in translation.

Phrases like "trade wars" and "retaliation" are bandied about, but at the end of the day what really matters is the impact of U.S. trade policy, and about that there is much speculation and little measurement. Moreover, much of the analysis that transpires is shrouded in political mist, further undermining shared understanding. Rather than trying to understand the direct impacts of ongoing trade discussions and disputes, many people interpret rising stock markets and ongoing job creation to mean that trade conflicts simply have not generated much impact to date.


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Still, many conversations in the United States remain fixated on trade wars and tariffs, including in the U.S. construction industry, which stands to be impacted by higher input costs and potentially slower economic growth. While U.S. policymakers have set their sights on many nations over the past two years, including South Korea, Mexico, Canada, Australia, the European Union, and India, it has been China that has captured the bulk of the attention.

This is with good reason, at least arguably — last year, the U.S. trade deficit with China totaled approximately $420 billion, with the United States importing a record $539 billion in goods from China and exporting a relatively modest $120 billion.[1] Among the leading U.S. import categories were computers and electronics ($186.5 billion), electrical equipment ($50 billion), miscellaneous manufacturing goods ($44 billion), machinery ($39 billion), fabricated metals ($26.5 billion), transportation equipment ($22 billion), and chemicals ($21 billion).[2] U.S. contractors would conceivably be impacted by higher costs for all of these products, but the electrical equipment, miscellaneous manufacturing goods, machinery, and fabricated metals segments all stand out.

Oddly enough, the leading categories of U.S. exports to China are highly overlapping, including transportation equipment (e.g., Boeing) ($28 billion), computers and electronics ($18 billion), chemicals ($16 billion), and machinery ($11 billion). Exports to China declined last year from nearly $130 billion in 2017 as buyers shunned U.S.-produced corn and soy.[3]

Further retaliatory actions are likely. In May, the United States increased tariffs on $200 billion worth of Chinese imports from 10 to 25 percent.[4] The administration followed those tariffs by announcing that the United States would initiate a process of applying 25 percent tariffs to another $325 billion in imports that have been excluded from the dispute thus far.[5] While recent meetings between top U.S. and Chinese officials have put some of the tensions on hold, meaning that additional tariffs may require months to implement if they are imposed at all, there are already substantial tariffs in place. This state of affairs should not be viewed as irrelevant to contractors or anyone connected with the development process.

**THE ISSUES FACING THE TWO MOST POWERFUL NATIONS IN THE WORLD ARE COMPLEX, WITH CHINESE POLICYMAKERS DEEPLY RESENTFUL OF ANY THREAT TO NATIONAL SOVEREIGNTY AND KEY U.S. POLICYMAKERS FIXATED ON THE MASSIVE TRADE DEFICIT AND ISSUES PERTAINING TO INTELLECTUAL PROPERTY.**

An article published by Bisnow, LLC, asked a number of commercial real estate experts to assess the likely impacts of ongoing trade disputes.[6] There was no unanimity. Greg Miller, CEO of Henry S. Miller Companies, expressed concern that higher input costs could drive up the costs of construction, thereby limiting the number of projects that would otherwise move ahead.[7]

Richard Lake of Roadside Development cited rising costs on "everything from steel to finished goods, cabinetry, appliances, everything, because you almost practically take [China] out as a supplier . . .We try to go domestic, but then costs go up. You can't buy products because costs are so prohibitive."[8] Lake also mentioned that the increasing costs are eating into profit margins on a number of projects on the East Coast, adding, "We all work from the margins. If the margins get thin, it does have an impact."[9]

As a representative from the other coast, George Wu of Gelt Inc. already observes rising costs as a result of their company's usage of Chinese products in their finished projects. With respect to a 430-unit multifamily development his company is building, Wu said, "We use a lot of Chinese products such as floors, cabinets, lights, power switches, etc. We bought these products from U.S. importers. It is foreseeable that the cost of these products will increase; thus our hard cost will increase as well. At this moment in time, we could not find plausible substitutes for Chinese products, as U.S.-made products' price is often at least 30 percent higher than Chinese products."[10]

Importantly, the White House's list of Chinese goods that could be subject to the new 25 percent tariffs includes copper, a metal found in various forms on most construction sites. According to the Copper Development Association, the average single-family home uses 439 pounds of copper.[11] The bulk of these products take the form of copper wiring (195 pounds) and plumbing tubes, fittings, and valves (151 pounds). An average multifamily unit uses about 278 pounds of copper. More than 200 pounds go toward wiring and plumbing.[12]

As of this writing, the market price for one pound of copper is $2.71, meaning the cost of copper for an average single family home is $1,190 and $753 for a multifamily unit.[13] Copper prices are relatively low at the moment, likely due in part to a wobbly global economy. Proposed tariffs, however, could significantly push costs higher at a time when many U.S. families are struggling with rising rent costs and increasingly concluding that homeownership is unlikely.

## Looking ahead

The Eurasia Group, a political risk consultancy, concludes that the probability of inking a Sino–United States trade deal this year is only 45 percent.[14] While the recent G20 summit put a temporary hold on new tariffs, the issues facing the two most powerful nations in the world are complex, with Chinese policymakers deeply resentful of any threat to national sovereignty and key U.S. policymakers fixated on the massive trade deficit and issues pertaining to intellectual property. In short, the threat to contractors remains real and consequential. ■

**NOTES**

1 Bartash, J., "Why the U.S.–China deficit is so huge: Here's all the stuff America imports," *MarketWatch* (June 27, 2019). Available at: https://www.marketwatch.com/story/heres-all-the-stuff-the-us-imports-

from-china-thats-causing-a-huge-trade-deficit-2018-03-23.

[2] *Ibid.*

[3] *Op. cit.* note 1.

[4] Pham, S., "The US just raised tariffs on Chinese goods. China says it will hit back," *CNN Business* (May 20, 2019). Available at: https://www.cnn.com/2019/05/10/business/china-us-tariffs-trade/index.html.

[5] Wallace, C., "The trade war with China is now a long-term problem." Forbes (May 28, 2019). Available at: https://www.forbes.com/sites/charleswallace1/2019/05/28/the-trade-war-with-china-is-now-a-long-term-problem/.

[6] "Will 25% tariffs on Chinese goods impact CRE?" Bisnow (May 19, 2019). Available at: https://www.bisnow.com/national/news/economy/will-25-tariffs-on-chinese-goods-impact-cre-99019.

[7] *Ibid.*

[8] *Op. cit.* note 6.

[9] *Ibid.*

[10] *Op. cit.* note 6.

[11] "Copper facts: Copper in the home," Copper Development Association, Inc. Available at: https://www.copper.org/education/c-facts/home/fact.html.

[12] *Ibid.*

[13] "Copper prices and copper price charts," InvestmentMine. Available at: http://www.infomine.com/investment/metal-prices/copper/.

[14] Kimball, S., "'It's a temporary timeout': Trump and Xi agree to negotiations, but offer no clear path to end US-China trade war," *CNBC* (June 29, 2019). Available at: https://www.cnbc.com/2019/06/29/g20-summit-trump-and-xi-agree-to-talks-but-offer-no-clear-path-to-end-the-trade-war.html.