Follow Hippocrates On Trade Policy... "First Do No Harm"

Earlier in the year, the Trump administration proposed sharply increased tariffs on a range of imports from the European Union. By late July however, the punitive tariff plan was scrapped, and the U.S. and the EU announced that a "zero-tariff" treaty would be unveiled in the next 120 days. According to recent reports, the Trump administration has also been reconsidering the stiff tariffs it previously imposed on Chinese imports (33% on steel, 25% on electronic components, and 11% on aluminum). These high-level about-faces make it difficult to gauge how U.S. trade policy will impact the music products industry, but one thing is certain: Any disruption in the trans-border flow of goods will be felt.

That's because despite its relatively diminutive economic stature, the music products industry relies on a complex global supply chain. Properly serving the U.S. market requires the efforts of enterprises on most of the world's continents. Guitars labeled "Made in the U.S." typically incorporate tuning machines from Europe or Asia, plastic components from Canada, and wood from numerous equatorial nations. A small p.a. system, assembled in China, might contain U.S.-made electronic components, knobs and metal parts from Taiwan, and Australian speaker magnets. These are just two examples that illustrate how enterprises, driven by the single-minded objective of delivering maximum value, scour the world for component parts. The quality of the products currently on display in a typical m.i. store conclusively proves that these efforts deliver more bang for the consumer's buck.

That's not to say that current trade arrangements are equitable, let alone optimal, which brings us to the current political debate. One side argues that the current trade structure, established incrementally over time by the World Trade Organization, while not perfect, has been an economic boon to the world. Tampering with this multilateral agreement, they caution, risks unleashing a potentially damaging global trade war. Critics respond that the World Trade Organization, crafted after World War II when the U.S. was the only fully functioning industrial economy, was designed to help Europe and Japan rebuild their war-torn productive capacity. Now that the rebuilding has been completed, they argue that WTO rules put the U.S. at an unfair disadvantage and are in need of an overhaul. The rise of China, however, has added a sense of urgency to the debate.

In 1993, the Clinton administration argued persuasively that admitting China into the World Trade Organization would foster the spread of democracy and improve bilateral trade. Two decades later, those promises remain unfulfilled. The Chinese government is as autocratic as ever and keeps high barriers to foreign trade and investment in place. Now that China has emerged as a formidable competitor, its restrictive policies undermine the credibility of the entire WTO structure.

The treatment of intellectual property has further roiled the debate. China is the world's bad actor on that front, offering foreign firms few legal avenues for prosecuting trademark, copyright, or patent infringements. Counterfeiting of prominent brands remains rampant, as chronicled in numerous stories in our columns, including a case in this issue involving Mason & Hamlin pianos. Making free access to U.S. markets contingent on respecting intellectual property is both politically and logically hard to rebut.

David Ricardo, a 17th century British economist and political theorist, was one of the first to articulate the benefits of trade with his theory of "comparative advantage." Simply put, he reasoned that people and nations prosper when they specialize producing what they're good at, and supply their other needs through trade. For a real-life validation of Ricardo's theory, consider the U.S. guitar market. American-based firms are capable of building exquisite instruments that are in demand worldwide. However, it's close to impossible for them to build anything that retails for less than $1,000. Asian guitar makers lack the prestige or quality of top U.S. firms, but their lower cost structure enables them to offer instruments that sell for $500 or less. Blocking Asian guitar imports to the U.S. market wouldn't magically enable U.S. firms to build sub-$1,000 instruments; rather, it would raise the cost of entry for a beginner, which would most likely shrink the market and deprive the retail channel of an important revenue stream. Guitar instructors would also probably see fewer students, while sales of teaching materials and guitar accessories would suffer. Thus, restrictions or stiff duties would unquestionably hurt, rather than help the U.S. economy. We doubt this scenario is unique to our industry, which is why getting the trade balance right is so important.

Resolution ultimately resides in the minutiae of product codes, tariff rates, and currency adjustments that fill thousands of mind-numbing pages, not political soundbites or academic theories. Our industry is far too small to have a seat at the table when these details are negotiated. But, the best outcome would be tariffs calculated on a reciprocal basis. That is, the Chinese 17% tariff levy on an imported U.S. trumpet should be met by the U.S. with a comparable tariff on a Chinese import. This perfect solution is probably unrealistic, but we propose there be a Hippocratic oath of sorts for trade negotiators that urges to "first, do no harm."

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