Experts: Trump's trade plans could hit SC hard

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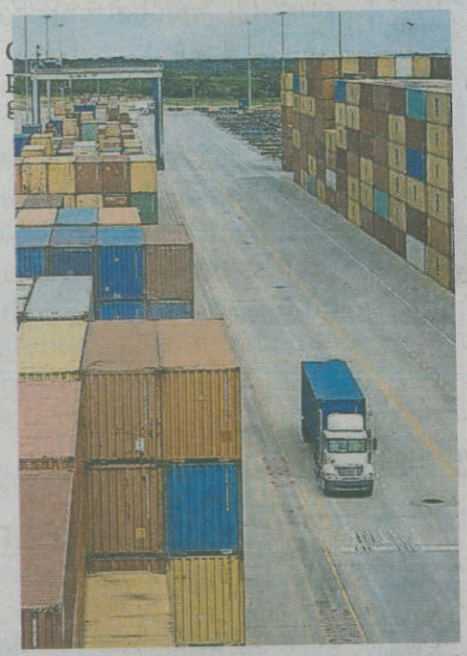
South Carolina, a state that turned out heavily in support of Donald Trump for president, could be one of the states hardest hit by a potential trade war with Mexico and Canada if the new president succeeds in a push to renegotiate the North American Free Trade Agreement as he's said he would, experts say.

Trump's tough talk on trade ramped up during his transition period and escalated during his first week in office with his administration floating a proposal Thursday to place a 20 percent tax on Mexican goods entering the United States, which administration officials later said was only one option.

A move like that would almost certainly draw tariffs on U.S. goods shipped to Mexico in retribution, said Scott Baier, interim chair of Clemson University's economics department and an adviser on international trade issues under President George W. Bush.

And that would damage one of South

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FILE

BMW, Michelin, Adidas and Dollar Tree are among the customers of Inland Port Greer, above. Officials say they are already in talks with potential customers of a new Inland Port Dillon.

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nearly $6.2 billion in 2015, equal to one-fifth of all of the state's exported goods, according to the U.S. Commerce Department.

That makes South Carolina one of the states most susceptible to a trade war due to its reliance on international trade following a resurgence of manufacturing in recent years, according to a CNBC report that cited the state as among the top 10 states that would be hurt by a North American trade war.

"Potential trade conflicts that the Trump administration is signaling would have a large impact on South Carolina in multiple ways," including dampening overall trade activity and diminishing the Port of Charleston's import business, which the state has been working continuously to build, said Gerald McDermott, associate professor of international business at the University of South Carolina's Darla Moore School of Business.

South Carolina business leaders are hoping Trump will negotiate better deals for the state's export business, which is the top in the Southeast.

"We want to make sure that on the trade front that South Carolina benefits from trade agreements," said Ted Pitts, executive director of the state Chamber of Commerce. "We're an exporter. And it would benefit the country to make sure we have those trade partners and agreements in place."

Pitts said the business community in the state is generally excited about Trump's business background and hopeful to gain from fewer regulations that were installed under the Obama administration.

"We're hopeful that he'll negotiate good strong fair trade agreements that help South Carolina exports," he said.

NAFTA's effect

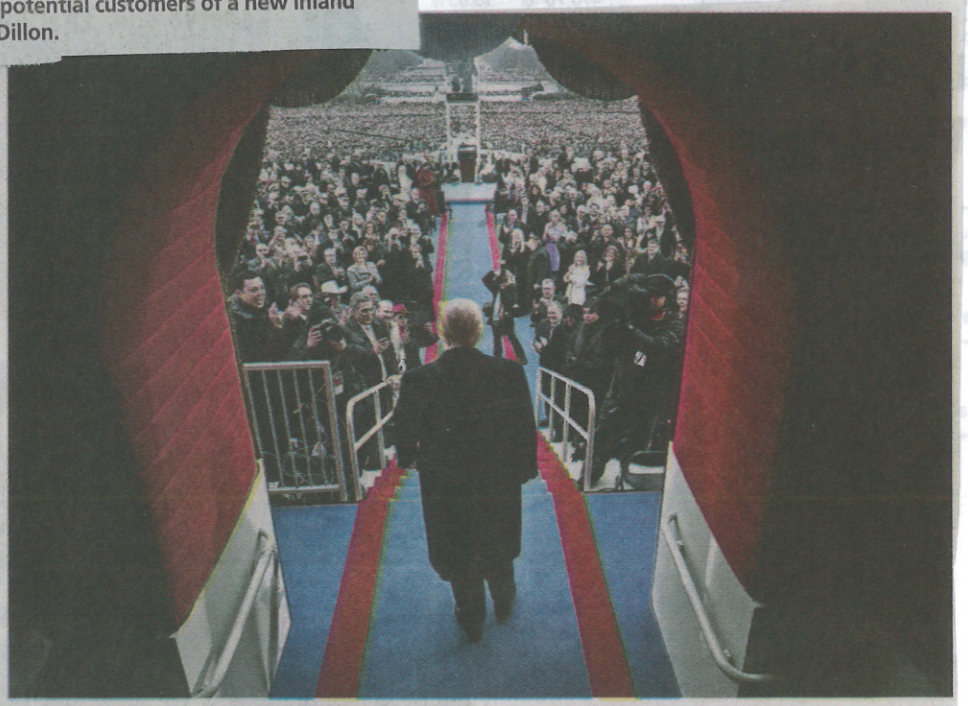
When President George H.W. Bush laid the groundwork for NAFTA in 1992 and President Bill Clinton entered into the agreement in 1994, the U.S. had a 10-12 percent tariff on goods entering Mexico, while Mexican goods had a 4.63 percent tariff entering the U.S., Baier said.

The trade deal gave the U.S more access to markets in Mexico than Mexico received to U.S. markets, he said.

"In many ways, (Trump) makes it sound like the NAFTA agreement was a one-way deal," he said. "He often uses the terminology 'bad deal.'"

"To say it was a bad deal, I don't see it that way," he said.

The agreement benefited American businesses by giving them a new tariff-free market and it benefited consumers



DOUG MILLS/POOL PHOTO VIA AP

President-elect Donald Trump arrives on Capitol Hill in Washington Jan. 20 for his inauguration. Experts say potential trade conflicts could hit the Port of Charleston and elsewhere in the state.

by driving down prices and making American-made vehicles and goods more competitive with foreign companies at a time when China was disrupting U.S. manufacturing, he said.

But some manufacturers did shutter factories in the U.S., and others chose to build in Mexico. Those decisions drew headlines and caused pain for specific locations, and that's the memory that Trump harnessed with his promises to bring manufacturing jobs back to "forgotten" parts of the U.S.

But overall, NAFTA has been a net-positive for the U.S. and for South Carolina, Baier said. Exports in South Carolina supported 158,000 jobs in 2015, the most recent U.S. Commerce numbers.

If Trump pulls the U.S. out of NAFTA, it would likely bring more manufacturing jobs home in the short-term but would cost the U.S. economy in the long-term and would have little or no impact on jobs in the long run, Baier said.

It would also drive up prices of goods made both in Mexico and the U.S. and would cost consumers, he said.

Small businesses hit

South Carolina's exporters, for the most part, aren't the big businesses. More than eight of every 10 businesses that export goods from South Carolina are small or medium-sized businesses. There are a lot of these small exporters dotted across the state — 5,240 of them in 2015 — and they're the ones most likely to be hurt by a trade war, said McDermott, the USC economist.

Small manufacturers are the first to be cut because even though they outnumber large export businesses five to one, the large businesses like BMW, Michelin and Boeing still produce most of the value of trade business for the state.

"When exports drop, small to medium sized businesses get hit," McDermott said. "Small firms get hit, and that hits employment."

Trade fights with Mexico and Canada would hurt textiles, rubber and pulp and paper exports. A potential trade war with China would damage auto and airplane manufacturing and further damage textiles and rubber, McDermott said.

"South Carolina is not going to be a winner in this," he said. "South Carolina should be concerned."

Trump targets BMW

Trump also came after BMW for its decision to build a $1.5 billion manufacturing plant in San Luis Potosi, Mexico, which is scheduled to open in 2019 and produce the BMW 3 Series sedan.

In an interview in the German newspaper Bild prior to his inauguration, Trump said he would impose a 35 percent tariff on BMW's made in Mexico. BMW has said it is still committed to building its factory there but its commitment to the Spartanburg County plant, where it's invested $7.5 billion to date, remains strong.

"BMW made a significant commitment to the U.S. when it began manufacturing vehicles in America more than 22 years ago," said Kenn Sparks, a spokesman for BMW North America.

That facility is now its largest producer in the world, making 411,000 vehicles last year, Sparks said.

The company exported 70 percent of those vehicles to 140 markets around the world and added $10 billion in export value last year, the highest of any other auto company in the U.S., he said.

"Our U.S. plant employs 8,800 people with 800 of those jobs added in the last 1½ years. BMW is currently investing another $1 billion in our U.S. plant to further expand production and add capacity for a new model, the BMW X7 which goes into production in 2018."

Bobby Hitt, South Carolina Commerce Secretary, who prior to his appointment in January 2011 was the manager of corporate affairs at the BMW Manufacturing plant in Spartanburg, said, "BMW has proven to be a responsible and strategic corporate partner to the U.S. and to this state."

He called BMW a global company with a philosophy that production follows the market.

Asked about how a tariff on vehicles made in Mexico would affect the company, Sparks said BMW doesn't comment on hypothetical situations.

Withdrawal from NAFTA would hurt the auto industry overall, and a 35 percent tariff could cost up to 31,000 jobs in the U.S. alone due to higher costs to produce the vehicles, according to a report by the nonprofit Center for Automotive Research. Many of those jobs would be from parts suppliers that make vehicle parts in the U.S. that are shipped to Mexico for final assembly.

How to get jobs back

South Carolina will likely never return to the level of manufacturing jobs it once had because of automation and new technology, but it can still provide jobs in advanced manufacturing, McDermott said. But its workers and educators need to focus on education to take advantage of any jobs created in the state from Trump's "America First" policies,

"There's an incredible deficit of skill," he said.

To capitalize, the state needs to focus on education, innovation, research and development of new products and processes and support of its small and medium-sized businesses, he said.

"If you look at the best places for advanced manufacturing, which I think is something South Carolina is very interested in, they always have a huge education institution ... jointly invested into by their government, the businesses and their labor unions.

"The idea of returning to manufacturing jobs, that's a real possibility, but you have to build a whole new level of institutions," he said. "Institutions they once got rid of, but now they need them again."