How Apple Is Reacting to Trump's Tariffs

Description

President Donald Trump has made trade one of his signature issues since early in his 2016 campaign. In office, he has pushed back on trade relationships that he views as imbalanced — with China, in particular, in his crosshairs.

Of course, trade isn't just about countries. It's also about corporations, many of which are de facto international "citizens." What the United States imports from China includes things made by American companies — including **Apple** (NASDAQ: AAPL), which relies heavily on Chinese manufacturing. Since President Trump's trade talks with China began to fall apart in late 2017 and early 2018, Apple has been scrambling to develop new strategies in the face of imminent new tariffs in a larger trade war with China.

A bite out of Apple

More than a few companies stand to lose big from the Trump administration's tariffs. But some are considerably better off than others: **Samsung** (OTC: SSNLF), for instance, makes products in China, but it manufactures a smaller portion of its offerings in China than Apple does. Samsung's more geographically diverse manufacturing, which includes manufacturing centers in Vietnam and South Korea, exposes fewer products to the tariffs and could make it easier for Samsung to shift its manufacturing around to avoid paying up.

By contrast, Apple's manufacturing is heavily concentrated in China. And the many products that Apple makes in China include a staggering number that are slated to be hit by tariffs by the end of the year: A full 92% of Apple's Chinese-made products will incur tariffs, according to analysis from Reuters.

And it goes without saying that Apple suffers more in a trade war with China than, for instance, Alphabet's **Google** or even **Amazon.com**, because tech hardware forms a larger part of Apple's business than it does for either of those other two tech companies.

In other words, tariffs aren't great for any company with a foothold in China, but Apple is particularly vulnerable to the new tariffs because of its concentration of manufacturing in the country.

Apple has added factories in other countries, notably India and Brazil, in recent years. But those are largely used to meet domestic demand within those countries, and Apple has grown its presence in China over the same period.

The Mac Pro stays at home

Apple's manufacturing outside of China may form a relatively small portion of its overall production, but the company is clearly looking for ways to ease its reliance on Chinese factories. With tariffs looming, Apple made an announcement on Monday, Sept. 23: The company will manufacture its new line of Mac Pros in Austin, Texas.

This is not the first time that Apple has made Mac Pros domestically, but it was still a surprising announcement — a seeming contradiction that helps illustrate the complexities of tariffs. Apple claimed that it needed tariff exemptions on the components it uses to manufacture its Mac Pros in order to justify staying in the U.S. If Apple had to pay tariffs on the components, it would just make the whole computer in China and pay tariffs to import it instead — or, at least, that was the threat. Eventually, Apple got its waivers.

The fact that tariffs could actually keep manufacturing *out* of the U.S. shows how complicated they can be, and also drives home Apple's reliance on China for more than just the final assembly of its products.

Far from over

Making computers in Texas is a good way to avoid tariffs, but it's also not new, and isn't a good reason to believe that Apple is any less dependent on China than it was before. And it's particularly telling that Apple felt it needed tariff exemptions on a product it is making domestically: It is not just Apple's manufacturing plants but its suppliers that are disproportionately located in China. In 2015, 44.9% of Apple's suppliers were based in China; by 2019, it was 47.6%. That may make it tough for Apple to make things domestically without tariff exemptions of the sort that it just won.

Apple investors can be happy with this latest development, but the company's overall position in relation to the tariffs on Chinese goods remains pretty unfortunate. It will take more than keeping a Texas manufacturing center open to beat the tax.

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