

# US tariffs to have little China impact

Chinese steelmakers account for only 2.9% of American imports last year

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The US government's move to impose tariffs on steel and aluminum imports will have little impact on China, analysts say. Whether it will escalate into a full-blown trade war, however, remains to be seen, they add.

US President Donald Trump signed proclamations on March 8 to impose a 25 percent tariff on steel and a 10 percent tariff on aluminum imports from all countries, with initial exemptions for Canada and Mexico.

He Ming, senior manager with global energy and consultancy firm Wood Mackenzie, said the US imported 35.6 million metric tons of steel last year, or around 36 percent of its total consumption, worth \$17.6 billion.

"The proposed protection measures will have more negative impact on steel imports from Canada, Mexico and Brazil. South Korea, the largest source of US imports from Asia, will be heavily hit," He said.

China, the world's biggest producer of steel, only accounted for 2.9 percent of US imports last year, which represented 1.4 percent of China's total steel exports. "So, the impact of the tariffs on China will be negligible," He said.

"Steel tariffs will not solve the underlying problem of the high cost of steelmaking in the US, which has forced steel end-users to search for cheaper imports.

"Its intention to protect employees in the steel and aluminum sectors will be offset by more job losses in the metal-intensive industries, such as car manufacturing."

Analysts say the policy will not only frustrate trade partners but also cost US workers.

"Economically, it may not help the US blue-collar industrial swing states or Trump," said Tim Harcourt, at the University of New South Wales (UNSW) Business School in Sydney.

"It is said that putting up tariffs is like putting rocks in your own harbor — ultimately it will hurt your own country's consumers, producers and workers.

"World leaders now fear a trade war, right when there were good signs of better days ahead in the global economy," said Harcourt, the JW Neville Fellow in Economics at the UNSW Business School.

The European Union has threatened retaliatory tariffs on US manufactured goods, in a tit-for-tat that will harm American businesses that export while raising costs for businesses that rely on a global supply chain.

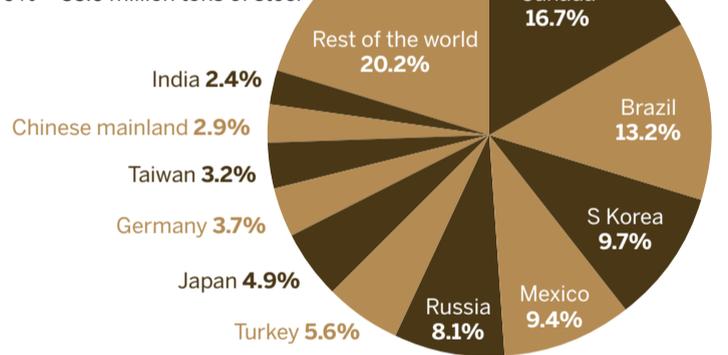
Gerry Rice, spokesperson for the International Monetary Fund (IMF),



A worker cuts steel in Qingdao in East China's Shandong province on March 2. China, the world's biggest producer of steel, only accounted for 2.9 percent of US imports last year. AFP

## US steel imports in 2017

100% = 35.6 million tons of steel



Source: GTT, Wood Mackenzie

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said on March 3 that the imposition of tariffs is "likely to cause damage not only outside the US but also to the US economy itself, including to its manufacturing and construction sectors, which are major users of aluminum and steel.

"We (the IMF) are concerned that the measures proposed by the US will, de facto, expand the circumstances where countries use the national security rationale to justify broad-based import restrictions," Rice said.

"We encourage the US and its trading partners to work constructively together to reduce trade barriers and to resolve trade disagreements without resort to such emergency measures"

Credit Suisse said a full-scale trade war is not certain at this point. In a note, the global financial services company said Trump's protectionist policies have been "product-specific and targeted at sectors in which

small US special interests might benefit".

"None of the tariffs are likely to change either the US or global manufacturing landscape," the note said.

As for China's response, Credit Suisse said it expects it to be "proportional and calculated" and not confrontational.

"The Chinese government almost certainly knew that some degree of new steel and aluminum tariffs were coming before it chose to send Liu He (President Xi Jinping's top economic adviser) to Washington.

"The direct impact of the tariffs on China's economy is less than 0.1 percent of GDP ... tiny.

"Perhaps China will find some tit-for-tat action to take, but we think its main response will be negotiation to avoid a trade war."

Ben May, director of global macro research for economics consultancy Oxford Economics, said the major concern is that it "triggers more

widespread protectionist measures"

He said it could lead to a wave of tit-for-tat policies, accelerating the apparent pickup in protectionism that has been seen over recent years. And regardless of the economic effects on the US, if Trump's policy is deemed a political success at home, it may embolden him to unveil further tariffs.

May said strong domestic approval in the US might also encourage other populist-leaning governments to adopt 'copycat' policies.

"While we are still far from a full-blown trade war that could threaten the global recovery, Trump's actions have increased the risks of such a downside event," he said.

While Trump has blamed China for US metal producers' woes, China is not even among the top 10 sourcing countries for steel imported into the US, May said.

In 2016, 88 percent of Canadian steel exports went to the US, while the equivalent figures for Mexico and Brazil were 73 percent and 34 percent, respectively.

"A lack of alternative major markets nearby is likely to result in steel producers in those countries taking a hit," May said. "By contrast, other major steel exporters to the US ship a much smaller proportion of their overall exports to the US."

For South Korea and Turkey, 12 percent and 15 percent of exports, respectively, went to the US, while Russian, German and Japanese shipments to the US were 6 percent or less of the total.

"The impact on foreign steel producers may also depend on the nature of the steel that they export to the US.

For instance, Brazilian exports to the US are primarily semi-finished steel, while Canada exports higher value-added forms of steel, (and) Mexico is somewhere in between," May said.

"If tariffs are, for instance, scaled back to focus on lower value-added forms of steel, emerging market steel producers may fare worse. There have also been suggestions that Canada is considered part of the US' national security base."

May said the global economic impact will depend upon the degree to which other economies implement retaliatory tariffs on US steel and aluminum producers or on other US products.

Already the Europeans have hinted that they might impose tariffs on Levi's jeans, Jack Daniel's whiskey and Harley-Davidson motorcycles.

"Beyond the steel and aluminum industry and competitiveness impacts on US manufacturing, the direct effects of the global economy are unlikely to be significant," May said.

However, the potential knock-on effects are undoubtedly a concern, he said.

First, if other economies choose to bypass the slow-moving World Trade Organization (WTO) dispute process and implement retaliatory tariffs on either US steel or other products, then there is a risk of a series of tit-for-tat actions.

"Over recent years, there has been a gradual increase in perceived and reported protectionism, and Trump's move could be the catalyst for a more substantive global policy shift," May said.

"Second, Trump's plan is clearly a move toward a more protectionist stance. Even if it turns out not to be an economic success, as seems likely, if it proves popular with the electorate, it could trigger similar measures to protect other domestic industries or even blanket tariffs on economies that run trade surpluses with the US.

"Finally, if Trump's domestic actions prove popular with US voters, it might prompt other governments with populist tendencies to jump on the bandwagon and announce their own tariffs under the pretext of national security concerns. Note that under the WTO system, security issues can be used to bypass some rules.

"We are, however, still some way from a full-blown trade war," May said. "President Trump may eventually water down any measures of his own accord or under pressure from elements of the Republican Party.

"What is more, if the economic gains from protectionism are shown to be illusory, it might even reduce the risk of further barriers down the line."