EDITORIAL

Beijing justified in retaliating

Countermeasures against US import taxes show that China will trade blows if forced to protect its interests

On April 4, just nine hours after the United States published a proposed list of China imports worth around $50 billion in annual trade it has targeted for additional tariffs, China announced a list of US goods totaling the same value that will be subject to equivalent tariff hikes, fulfilling its promise of retaliatory "measures of the same strength and the same scope".

Unlike some other US trade partners who succumbed to US President Donald Trump's administration raising tariffs on steel and aluminum products, Beijing, as it has repeatedly said, is ready to stand toe-to-toe with Washington and trade blows if the latter stubbornly persists with its protectionist gambit.

The Section 301 investigation, on which the latest list is based, is a stick that Washington often wields to intimidate trade partners into conceding to its demands.

However, the Trump administration should realize that such a ploy will not work with China, a country that will not yield to any external pressure aimed at compromising its interests.

Although the two sides have raised the stakes this time, with Washington targeting machinery, information technology and communication products, and Beijing hitting aircraft, autos and soybeans in retaliation, the world's two largest economies are not yet engaged in a full-fledged trade war.

China is adhering to the rules by referring the US' action to the World Trade Organization for dispute settlement, and its countermeasures, although forced, have remained restrained and reciprocal.

Indeed, Beijing has never ceased sending the message that there would be no winners if there should be a trade war, and much collateral damage. It is willing to talk, willing to strike a mutually agreeable balance in bilateral trade. But Washington should not mistake that for weakness.

While Trump may be thinking more of his core support and the mid-term elections in November than bilateral ties, Beijing continues to keep the longer term and bigger picture in mind.

The US' deficit in its trade with China is the result, primarily, of its low saving ratio, the US dollar's role as an international currency, domestic policies that do not support manufacturing, and its long-term ban on high-tech exports to China. It has also been exaggerated by its outdated way of calculating trade with China.

The complementary nature of the two economies and comparative advantages of China and the US constitute the foundation for bilateral trade, if not for the recalibration of the trade balance.

And since trade is the basis for his decisions, not the target, Trump, as a shrewd businessman, surely knows it is time to strike a deal.

US ports to feel weight of tariffs

Steel import duties could lead to less cargo, putting shipping hubs on the front line if a trade war develops

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The seaport in Houston, Texas, handles the most imported steel of any port in the United States — 3.7 million metric tons last year. And that has the port's executive director Roger Guenther worried.

"As a result, we are concerned that the 25 percent tariff on steel cargo could decrease cargo volumes, creating a detrimental impact on local jobs and the economy," he said.

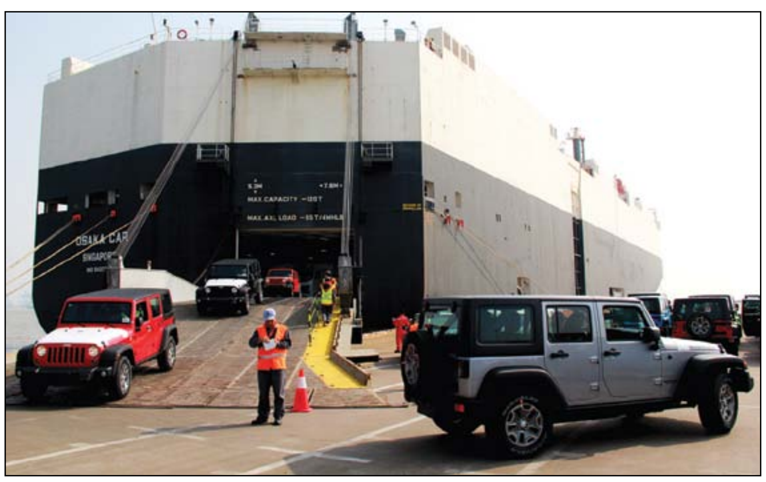
Guenther is not alone with his concern about US President Donald Trump's tariffs of 25 percent on imported steel and 10 percent on aluminum that were imposed in March.

Domestic US steel manufacturers say the tariffs will allow them to create some jobs, but many ports rely on the imported steel that is subject to the tariffs.

Steel is an important cargo at ports along the coast of the Gulf of Mexico, as well as on the west and east coasts and in the Great Lakes region. In addition to Houston, the top steel gateways include Mobile, Alabama; New Orleans, Louisiana; Brownsville, Texas; several ports in the Pacific Northwest and Great Lakes region; and on the Delaware River.

"The ports are on the front line if some sort of trade war develops," Kurt Krummenacker, a Moody's senior vice-president and manager, told *The Bond Buyer* in March.

He said the Gulf ports that have the largest share of steel and aluminum imports and are heavily into oil refining — including Houston, Mobile and New Orleans — are probably the most affected. "If there is retaliation from trading partners, the risk could spread to other ports," he said.



A shipment of 440 imported Jeep Wranglers, with a value of more than $200 million, arrives at Guangzhou Port in Guangzhou, South China's Guangdong province, in December. CAI MINJIE / CHINA NEWS SERVICE

Jimmy Lyons, CEO of the Alabama State Port Authority, said: "My greatest fear all along has been that an action like this could lead to retaliation that could affect our exports. I'm afraid that's where it could lead us. In a trade war, there are no winners."

Mobile handles about 5 million tons of steel annually, including about 3 million tons of imported slab steel, and 250,000 tons of lighter aluminum.

The Port of New Orleans is third in the nation for steel imports, behind Houston and Mobile, its spokesman Donnell Jackson said.

In 2017, the port handled 2.48 million tons of imported steel, accounting for 83 percent of its bulk tonnage. It took in 665,154 tons of aluminum traded on the London Metals Exchange in fiscal 2017.

Robert M Landry, vice-president and chief commercial officer of the Port of New Orleans, told a Commerce Department hearing in May that about 80 percent of New Orleans' steel imports are moved up the Mississippi River on barges, which are then used by US farmers to deliver agriculture products to grain elevators on the Lower Mississippi River for export. Sixty percent of US soybean exports move through Lower Mississippi grain elevators, chiefly in the Port of South Louisiana between New Orleans and Baton Rouge.

"Without those barges moving upriver, the cost to transport US grain increases, making US agricultural products less competitive with those in other producing countries like Brazil and Russia," he said.

Brandy Christian, president and CEO of the Port of Louisiana, said that imposing tariffs arbitrarily on steel and aluminum will hurt ports, the larger maritime community and steel-consuming industries.

US has announced new tariffs on 1,300 tariff lines. The products include:

- Stainless steel, aluminum
- Medicines
- Machinery
- Televisions
- Flamethrowers

China in response will impose tariffs on US imports including:

- Soybeans
- Beef
- Autos
- Aircraft
- Plastics

The jobs of dockworkers, as well as port revenue, will be affected, said economist Loren Scott, emeritus professor at Louisiana State University.

A trade war could undo any benefits gained from Trump's recent tax reforms and industrial deregulation, Scott said. "Bottom line, unless you're in steel or aluminum, these tariffs are very bad economic policy. You can't put lipstick on a pig."

After the California ports of Los Angeles and Long Beach, the largest importer of steel products on the West Coast is the Port of Vancouver, Washington. In 2017, the port unloaded 712,834 tons of steel.

Steel imports support 600 jobs at the port and account for 36 percent of its annual revenue, according to port executives. Most of Vancouver's steel imports come in from Russia and Mexico, with some from South Korea and Japan.

Ryan Hart, spokesman for the Port of Vancouver, told *The Daily News* in Longview, Washington, "the main concern around a lot of this talk" about tariffs has to do with China. "And we don't import steel from China; it comes from these other countries" that could be unfairly targeted by broad tariffs, he added.

More than 50 percent of the containers on ships leaving Puget Sound in Washington go to China, according to the Port of Seattle.

China is Washington's No 1 export market, taking in $18 billion worth of business last year.

"Our jobs in advanced manufacturing, in aviation, in technology, in agriculture, are creating export products for sale, and China is our largest market," said Andrew Wilson, the Washington State China Relations Council chairman. "When China puts quotas and tariffs on those products, those products won't ship. Those jobs in fact will be stagnated or lost."

Courtney Gregoire, Port of Seattle commission president and co-chair of the Northwest Seaports Alliance, representing Seattle and Tacoma, said: "Higher tariffs will jeopardize jobs in Washington and raise costs for consumers in a much wider range of industries."

As for the twin ports of Los Angeles and Long Beach, they saw an increase in traffic this year, Gaurav Purohit, a Moody's analyst, told *The Bond Buyer*. But he said steel represents less than 2 percent of the revenues at those ports, so less impact is anticipated from the steel tariffs.