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European Languages

زبانهای اروپائی

19 February 2018

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20.02.2018

Another US step toward trade war

The United States has taken a further step toward trade war, with significant military overtones. Commerce Secretary Wilbur Ross announced last Friday that he has sent a range of options to President Donald Trump for the imposition of tariffs and other restrictions on imports of steel and aluminium.

Ross released details of long-awaited investigations conducted under section 232 of the 1962 Trade Expansion Act, which allows the president to impose restrictions on imports deemed to impact on “national security” without congressional approval.

Ross said separate inquiries into both metals launched last year found that import surges in recent years “threaten to impair our national security.” He recommended global tariffs of 24 percent on steel and 7.7 percent on aluminium.

A large portion of steel comes from Canada and other strategic allies, which would be hit by a global tariff. So other options are being considered to target China and other countries, such as Brazil and Vietnam. The latter is regarded as a “third country” exporter of Chinese steel to the US. A third option being considered is to reduce imports of the metals from all countries to well below the levels reached in 2017.

The recommendations now go to the White House, with Trump having until April to make a final decision.

Ross last week suggested that Trump could adopt a more “surgical” approach, which would see a 53 percent levy introduced on steel from a list of 12 countries that includes

China, Russia, India and South Korea, but would allow exemptions for close allies like Japan, Germany and Canada.

The imposition of trade restrictions is fraught with conflicts, not only with the exporting countries, but also with sections of industry in the US that use imports of aluminium and steel to keep their costs down.

Trump addressed this issue in a meeting with members of Congress last week. He claimed imposing tariffs would “create a lot of jobs,” brushing aside concerns that it would raise costs for many companies and cut jobs. At the same time, he pointed to the military implications of the move, especially as regards China.

“I want to keep prices down but I also want to make sure that we have a steel industry and an aluminium industry and we do need that for national defence,” Trump said. “If we ever have a conflict we don’t want to be buying steel [from] a country we are fighting.”

Although China is relatively well down the list of exporters of aluminium and steel to the US—fourth in the former and eleventh in the latter—the US commerce department maintains that China’s increased production of both metals in recent years has depressed international prices.

Trump’s strongest base of support in the US is drawn from the trade union bureaucracy and steel and aluminium companies that have been pushing for action—their shares rose sharply on Friday. US Steel shares rose by as much as 16 percent, the biggest jump since late 2016.

United Steelworkers union president Leo Gerard welcomed the move. “These recommendations have the potential to focus on the bad actors in the world that historically and systematically cheat in international trade,” he said. “We applaud that approach.”

However, other business groups are concerned that the measures will have an adverse impact, both because they will raise costs in the US and lead to retaliatory action by other countries.

According to National Trade Foreign Council president Rufus Yerxa, the tariff measures could be a “major problem for a lot of industries” and could set a dangerous precedent for other countries to impose trade restrictions in the name of “national security.”

The *Financial Times* quoted former senior US trade official John Veroneau who said the move was not about “national security.” Instead, “section 232 is simply being used as a pretext for good old-fashioned protectionism.”

Ross's announcement saw a firm, but, so far measured, response from China. The director of the commerce ministry's trade remedy and investigation bureau, Wang Hejun, said the US, the world's biggest steel importer, was overprotective of its output. He warned of the implications of the latest moves.

"The spectrum of national security is very broad," Wang said. "Without a clear definition, it could easily be abused. If every country followed the US on this, it would have serious ramifications on the international trading order. If the final decision from the US hurts China's interests, we will certainly take necessary measures to protect our legitimate rights."

Chinese retaliation could include action within the World Trade Organisation (WTO) or specific measures directed against US exports of agricultural products to China.

Chinese Academy of International Trade and Economic Cooperation president Huo Jianguo said, although "broad trade war is unlikely," China could make moves on single products.

Earlier this month, China launched an anti-dumping investigation into sorghum imports from the US, saying they were being sold at below market prices in order to undercut Chinese producers.

In a sign of growing tit-for-tat conflicts, the Chinese inquiry was launched after the Trump administration imposed new tariffs on solar panels made in China and on washing machines.

The Japanese authorities remained tight-lipped. Yasuki Komiyama, the director of the Ministry of Economy, Trade and Industry metal industries division, said exports of steel and aluminium did not pose a threat to US national security. It was an issue within the US government, nothing had yet been decided and "therefore the Japanese government doesn't have any further comment."

However, Kobe Steel warned there could be ramifications. If the measures were enacted, "it would be difficult for the industry to avoid any impact," according to a company official.

South Korea's trade ministry met with steel industry officials the day after the announcement, issuing a statement saying it would reach out to the US before any final decision was made.

Announcing the move, Ross acknowledged that other nations could respond in kind, but this did not deter him. "We believe ... that this is a perfectly valid interpretation of our national security," he told reporters in a conference call.

“As to whether there will be a challenge, it wouldn’t surprise us if there were. Anytime you do something that affects a number of countries, the likelihood is that they will bring a WTO action or take other measures.”