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Trump and His Tariffs



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President Donald Trump promised to “make America great again”. The slogan defined his campaign and his presidency. His bluster was often forgiven because of the sentiment attached to that slogan—it inspired a hope that Trump’s policies would protect the U.S. economy and ensure that the declining standard of living of Americans would be reversed. A year into his presidency, there is little evidence of any improvement. Inequality continues to define the American economic landscape—CEOs, new government data show, can make up to a thousand times more in their salaries than their employees. It is

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impossible to suggest that high inequality and joblessness should be the character of a Great America. Red hats with that slogan are easy to produce, but it is a bitter pill if these are made—as they often are—in Bangladesh, China and Vietnam.

President Trump has now announced a tariff policy on aluminium and steel, which he hopes will redouble efforts by the manufacturing sector to kick-start a languid economy. Trump framed his tariff policy around the framework of national security rather than economics. Other powers, mainly China, he said, were “assaulting our country”. It was to prevent this assault that the U.S. would build a high wall around these key sectors of its manufacturing. It was clear that this was less about economics and more about politics when Trump announced speedily that “good friends”—Canada, Mexico, Australia—would be excluded. Australian and Canadian firms are major producers of aluminium through Rio Tinto and through the subsidiaries of the American aluminium giant Alcoa. The largest aluminium producers in the world are Chinese and Russian, but the materials are mainly used in Eurasia rather than exported to the U.S.

Chinese export of steel to the U.S. accounts for merely 3 per cent of the U.S.’ steel imports. The major countries from where steel goes to the U.S. are Canada, which will likely be excluded from the tariff, and Brazil, which will not be excluded. Brazil’s private steel companies, Gerdau and CSN, are subsidised by very favourable loans from the government bank, BNDES. Brazil’s right-wing government, already in the midst of political turmoil and with little guarantee that it will be able to win the elections later this year, has asked the Trump administration for an exception. If Trump gives Brazil the exception, the policy will appear to be more smoke and mirrors than based on reality.

China is the rhetorical target of Trump’s policy, even though Chinese firms export neither aluminium nor steel to the U.S. But this anti-China move is part of a process at the Trump White House. Trump had released a national security report that identified China as a “strategic competitor”, and the 2017 Report to Congress on China’s WTO Compliance has strong words that China is a cyber-thief and a cyber-spy.

Trump’s advisers on tariff policy are Commerce Secretary Wilbur Ross, Economic Adviser Peter Navarro and Trade Representative Robert Lighthizer. These three men share an obsession with China. They believe that China is undermining America’s capacity to become great again. Their views are grounded less in economics and more in politics.

U.S. businesses fear retaliation

The tariff policy pointed its fingers at China. Trump has defined the project of making American great again in opposition to China. It is as if a halt to China’s advance will

somehow contribute to the greatness of America. But it is clear that Trump will not be allowed to push too hard against China and that his policies will not impact China negatively. Commercial lobbies in the U.S. responded negatively to Trump's China policy because they feared retaliation. The U.S. Chamber of Commerce and 44 other such associations wrote a stinging letter to Trump asking him not to impose tariffs against China. If the U.S. did so, they wrote, it would "trigger a chain reaction of negative consequences for the U.S. economy". Apple, Google and Walmart are among the firms that say that they would not like a trade war with China. They rely upon China for production and for markets. It would be catastrophic for them if China fought back.

Interestingly, the data on U.S.-China trade deficits used by the Trump administration as a dog whistle about Chinese "unfairness" are out of date. The statistic bandied about is that China has an advantage of about \$375 billion over the U.S.— a very high number. However, this is an illusion. Most of the goods that come to the U.S. from China are not entirely made in China but are made along the global circuits of production—some are even made in the U.S.

Components come from around the world into China, where they are utilised in the goods produced for exports. When the value of these components is factored in, the trade deficit drops to \$200 billion (based on the World Input Output Database). The U.S. consumption patterns benefit not only China but a range of countries, including the U.S. An attack on China will impact many other countries more than China itself.

Europe's retaliatory tariffs indicate that the Europeans are not in a trade war but want to send a political message to the U.S. They have put tariffs on blue jeans and on cranberries. The latter is significant. It is a key industry in Wisconsin, House Representative Paul Ryan's State. It is a little message to Ryan and to America's iconic product (blue jeans). Cecilia Malmstrom, the European Commissioner for Trade, said that a trade war was not on the cards. "A trade war has no winners. If it does not happen, all the better."

China is likely to file a lawsuit against the U.S. in the World Trade Organisation (WTO). The U.S. has shown a propensity to ignore the WTO when its rulings are adverse. In 2002, President George W. Bush slapped a 30 per cent tariff on steel on national security grounds. The WTO ruled against the U.S.; Bush ignored the WTO. The Europeans imposed tariffs on goods made in congressional constituencies that were up for re-election. Bush abandoned the tariffs to make sure that his party would not be hurt in the mid-term elections. The retaliatory tariff on cranberries harks back to that feint by the Europeans.

But the U.S. had been developing bilateral treaties outside the WTO and multilateral arrangements that it dominated in order to undermine the WTO. The Trans-Pacific Partnership (TPP), whose purpose was to exclude China, was a way to develop new trade standards favouring the West—standards such as new kinds of intellectual property protections, new forms of investor settlement mechanisms and restrictions on state-owned enterprises. Trump had trashed the TPP in the early part of his presidency, but there are now signs that he might return to that table if it enables him to push China off balance.

This column originally appeared on [Frontline](#) (India).