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After tariff measures against China

Trump threatens to escalate trade war with Europe

As the European Union imposed tariffs on €2.8 billion worth of American products yesterday, in retaliation for US tariffs on steel and aluminium, President Trump again threatened to escalate the trans-Atlantic trade war.

Trump fired off a tweet on Friday morning declaring that if the EU did not remove existing tariffs on US auto exports, "we will be placing a 20 percent tariff on all of their cars coming into the US."

The EU has announced a two-phase response to the US steel and aluminium measures. According to a list submitted to the World Trade Organisation, a 25 percent tariff on a range of products, from peanut butter and bourbon to Harley-Davidson motorcyles, takes effect immediately. Tariffs on a further €3.6 billion worth of US goods will be imposed after three years or earlier if the WTO rules in the EU's favour.

Speaking on the imposition of the EU measures, European Trade Commissioner Cecilia Malmström said: "We did not want to be in this position. However, the unilateral and unjustified decision of the US to impose steel and aluminium tariffs on the EU means that we are left with no other choice."

She said: "Rules of international trade, which we have developed hand in hand with our American partners, cannot be violated without a reaction from our side."

The US measures were imposed under section 232 of the 1962 Trade Expansion Act invoking "national security" as their rationale. As the European measures went into effect, Canada is set to impose tariffs next month while Mexico had already done so, as both countries, like the EU, failed to secure a carve-out from the US measures.

Trump's latest threat to extend tariff measures on autos, using the same "national security" provision as was employed in the case of steel and aluminium, would provoke a much bigger conflict, especially with Germany.

The US imported almost 1.3 million vehicles from the EU last year with the three big Germany companies, BMW, Daimler and Volkswagen exporting 726,300 of these.

The *Wall Street Journal* noted that the latest Trump tariff tweet underscored "the importance he is placing on a probe his administration launched last month into whether big tariffs could be imposed on vehicle imports in the name of national security."

Commerce Secretary Wilbur Ross, whose department is overseeing the investigation, told a Senate committee meeting this week that no decision had been made as yet as to whether to recommend tariffs, He indicated that the probe was expected to be completed by early August.

When he announced the investigation back in May, Ross placed heavy emphasis on national security, saying that for "decades" there was "evidence suggesting that imports from abroad have eroded our domestic auto industry. Economic security is military security. And without economic security, you cannot have military security."

Trump is clearly looking to press ahead as his latest tweet indicates. It followed his address to a "Make America Great Again" rally in Minnesota earlier this week, in which he denounced the EU for saying "we're going to sell you millions of cars, by the way, you're not going to sell us any."

The EU has declined to comment on the latest Trump threat with one official telling the *Wall Street Journal*: "Everything that we have to say on that subject has already [been] expressed … at various occasions over the last weeks."

When the US Commerce Department investigation into the auto industry was announced last month, EU spokesman Margaritis Schinas said there was no justification for the tariffs on steel and aluminium, adding that "invoking national security would be even more far-fetched in the case of the car industry." Industry spokesmen also warned that if tariffs were invoked they would lead to a disruption of the global car industry.

The US trade war against China and the threat of auto tariffs has already made an impact on the German car industry. This week Daimler, the maker of Mercedes cars, issued a profit warning on the impact of the growing trade war. It said it now expected that profit figures for 2018 would be “slightly below” the level of last year, after earlier predicting a rise.

It stated that the imposition of tariffs on US car exports to China, the major export market for its US plants, was the “decisive factor” in the profit downgrade.

“Fewer than expected SUV sales and higher than expected costs … must be assumed because of increased import tariffs for US sales into the Chinese market,” the company said.

The escalation of a US trade war is starting to cause concerns in international financial circles. This week saw the Trump administration threaten to impose tariffs on up to $400 billion of Chinese goods on top of the tariffs on $50 billion worth of high-tech products to come into effect next month

While it was not the central item on the agenda, trade war and its dangers were the subject of comment and warnings at the annual meeting of central bankers convened by the European Central Bank (ECB) in Sintra, Portugal, this week.

“Changes in trade policy could cause us to have to question the outlook, the chairman of the US Federal Reserve Jerome Powell said during a panel discussion. “For the first time, we’re hearing about decisions to postpone investment, postpone hiring.”

ECB president Mario Draghi said it was still too early to measure the economic impact, but he was concerned about the erosion of confidence among businesses.

It was not time yet to see what impact the trade conflicts could have on central bank monetary policy, he stated, but “there’s no ground to be optimistic on that.”

The lesson to be learned from history was that the consequences of trade conflicts and protection were “all very negative” and the spread of disputes was undermining “the multilateral framework that all of us have grown up with,” Draghi said.

The governor of the Bank of Japan, Haruhiko Kuroda, warned that the impact of the trade war could disrupt the economic network across East Asia that supplies China.

“I really hope that this escalation could be rescinded, and a normal trading relationship between the US and China would prevail. This is a matter of great concern for Japan,” he said.

The sharpest warning came from the governor of the Reserve Bank of Australia Philip Lowe. He said while tariffs alone would not derail global growth, they could spark market volatility and lead to the postponement of business decisions.

“It wouldn’t take that much for financial markets to combine with businesses that are waiting to turn this into a big global event. I hope it has a low probability, but I’m very disturbed at what is happening.”

Lowe said there was no country that had become wealthier and boosted productivity growth by building walls. “I view what’s happening as incredibly worrying.”