

BUSINESS RECORDER

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Global economic wars

March 6, 2018

President Trump is notorious for taking decisions that ruffle more than a few feathers. He is often at odds with his own conservative values, and traditional Republicans, by going the protectionist route. Last week, in fulfilling one of his campaign promises to “bring jobs American back”, he announced tariffs on imported steel (25%) and aluminum (10%)—a decision that lit fire in many chambers. Hours following the statement, Dow slid 600 points. Here at home also, investors were rattled.

In the US, the impact will be far-reaching. The decision is backed by steel and aluminum manufacturers as they now get protection from imported variety and can charge the prices they can. Other manufacturing industries within the US that use steel and aluminum as inputs, however, will face the heat. The President of the Association of Global Automakers argued that Trump’s decision was fraught with “unfortunate ironies”.

There are some gainers, but many losers. And the list for losers is not short: automotive and auto parts makers, machinery and electronics manufacturers, aerospace and beverage industries as well as retailers are all likely to get affected. The SMEs, specifically, fear being pushed out due to higher costs of production. Consumers on the other hand, would see price hikes across major consumer items as manufacturers are expected to pass on the higher costs to them. This could affect consumption and lead to job losses.

Director of a US-based think tank, Cato Institute, argued in a story published on CNBC that industries that used steel contributed more to growth and employment than steel makers did. According to him, steel consuming industries contributed 15 times more to the economy than steel producers, and employed 57 workers to one employed by steel producers.

To Trump, China is the biggest thorn in the way of American growth and jobs. And though China remains the biggest producer of steel, other exporting nations of metal items to the US include Mexico, Canada, South Korea, and the EU. There would be retaliation!

In fact, a US lawmaker is making a case to the White House now to exempt North American Free-Trade Agreement (NAFTA) countries from the new policy. NAFTA is at a sensitive stage of being renegotiated and these tariffs could undoubtedly derail the progress. While both signatories, Canada and Mexico are very likely to respond in kind, the EU already announced it would apply 25 percent tariffs on US imports if Trump's decision goes forward. Will China show restraint? It's doubtful.

Moreover, American manufacturers that use steel as their primary input, like many manufacturers in the past could move out of the country all together and set up shop in countries like Mexico where they could enjoy low cost raw material. In many senses, Trump's decision will have the opposite impact.

In Pakistan, the knee jerk reaction at the bourse came at the prospect of Chinese dumping steel into Pakistan as it has to divert its steel somewhere if US markets becomes expensive. However, anti-dumping duties already in place in Pakistan against Chinese steel are expected to cushion any such blow. In spite of that, there may be a larger impact on economies globally if cost of business in the US goes up.

Unarguably, Trump is not known for his diplomatic aplomb; but rather his political incorrectness. But many international analysts are calling into question his rationality. They argue that it doesn't make economic sense to protect some industries at the expense of many others; as well as the American middle class consumer, if indeed "America First" is the sentiment he is sticking by.

The question perhaps they need to be asking is, does he really care about the American worker and manufacturer; or just operating in a tunnel vision of hitting China where it could potentially hurt? And really, at what cost? No doubt, the biggest economic war that could ensue after this decision may just be a war of egos.