

With his intentions to impose tariffs on steel, Trump lights the protectionist fuse

Daniel Ikenson

March 1, 2018

Yesterday, demonstrating utter contempt for facts, history and the majority of his advisers' opinions, President Trump gleefully broadcast his intention to impose 25% tariffs on imported steel and 10% tariffs on imported aluminum. "We'll be signing it next week. And you'll have protection for a long time in a while," Trump announced. Get ready for the blowback.

The decisions stem from two nearly yearlong investigations conducted by the U.S. Department of Commerce under Section 232 of the Trade Expansion Act of 1962, which found that imports of steel and aluminum "threaten to impair the national security" of the United States. That finding gives the President broad authority to respond with trade restrictions, which is what he just did.

President Trump's decision to restrict imports on the basis of the argument that low-priced raw materials from a diversity of sources somehow threatens national security lowers the bar so dramatically as to invite all U.S. trade partners to invoke national security to protect their chosen industries.

According to the Commerce Department's analysis, tariffs will induce U.S. producers to build and use more domestic capacity, ultimately reducing U.S. dependence on foreign sources for materials considered critical to national security. In other words, the abundance of steel and aluminum is a harbinger of future scarcity.

The report is silent, however, on the adverse effects of tariffs on the U.S. producers who require steel and aluminum to manufacture the actual machines, implements and components deemed critical to national defense. Logic suggests and experience confirms that those "downstream" producers and their employees are weakened by trade restrictions, which endow their foreign competitors with relatively lower production costs and enables them to offer relatively lower prices in the U.S. and foreign markets.

Under prevailing global trade rules, which generally commit governments to keep their low-tariff commitments, exceptions are granted for certain circumstances, including to protect national security. In the 23-year history of the World Trade Organization, no government has invoked this exception because it has always been regarded as a last resort.

Trump's decision to restrict imports on the basis of the argument that low-priced raw materials from a diversity of sources somehow threatens national security lowers the bar so dramatically as to invite all U.S. trade partners to invoke national security to protect their chosen industries.

China considers its dependence on foreign semiconductors and other technologies a threat to its security. In the name of preserving security, China can get away with its policies of forced technology transfer and interminable inspections of U.S. information and communications devices.

India often rationalizes its agricultural protection under the rubric of food security. Imposing tariffs and quotas on imported grains in the name of national security just got a lot easier. The Europeans, long suspicious (and covetous) of U.S. technology giants, might turn to restrictions on data flows, ostensibly to protect privacy but ultimately to impede Google and Amazon so as to clear some space for emerging European tech companies.

Some governments may well skip the formalities and just retaliate against U.S. exporters. China recently launched an investigation into U.S. exports of sorghum, which is widely perceived as retaliation for recent U.S. duties on solar panel components. U.S. soy exports could be next. Strategic targets for retaliation — industries important to influential members of Congress — would include dairy for Wisconsin, tobacco from Kentucky, citrus fruit from Florida and textiles from North Carolina. The collateral damage will be considerable.

Trump seems intent on destroying the global trading system, which has delivered seven decades of prosperity and poverty alleviation. It is largely agreed that the main source of concern for U.S. and other countries' steel and aluminum producers has been Chinese production overcapacity. An agreement to rein it in was reached a few months ago, but Trump harrumphed at the news, demanding that he be brought tariffs.

Now that the President's lit the fuse, sit back and watch things go boom.

Ikenson is director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies.