

BUSINESS INSIDER

'A slow motion train wreck': Trump is kicking off a trade war with America's closest allies

Bob Bryan

May 31, 2018

Not even the US's closest allies can avoid getting caught in President Donald Trump's escalating trade battles.

Commerce Secretary Wilbur Ross said steel and aluminum tariff exemptions for the European Union, Canada, and Mexico would expire at the end of Thursday. Starting Friday, steel imports from those countries will be subject to a 25% tariff, and aluminum imports will be hit with a 10% tariff.

The US put in place exemptions for key allies after the initial announcement on the tariffs in March. But they were only designed to be temporary reprieves.

With negotiations going nowhere, Trump decided to go forward with the tariffs.

The move will likely trigger serious retaliation from the three countries and push the US to the edge of a trade war. French Finance Minister Bruno Le Maire said after a meeting with Ross that the imposition of steel and aluminum tariffs would be a step into dangerous territory.

"The responsibility falls solely on to US authorities," Le Maire said. "Only they have to decide whether they want to enter a trade war with their closest partners."

Edward Alden, senior fellow at the Council on Foreign Relations, told Business Insider that Trump's decision may not technically constitute the start of a trade war. But it's certainly close.

"There's no question this would be a very serious escalation in the trade conflict," Alden said.

Simon Lester, a trade policy analyst with Cato Institute, also suggested that the president's escalation is pushing the US into dangerous territory.

"I don't know if it's officially a 'war' yet, but it's getting to be a pretty intense trade skirmish," Lester told Business Insider.

The EU is expected to respond with tariffs of their own on a little more than \$3 billion worth of American goods including motorcycles, bourbon, and blue jeans.

Beyond semantics, Alden said that the decision to impose tariffs will cause major economic disruptions across Europe and North America.

"The EU, Canada, and Mexico make up about half of US steel imports, so the economic effect of these tariffs would be far more than anything we've seen to date," he said.

By increasing the cost of imported steel and aluminum, companies that rely on the metals will be forced to either accept the higher costs and lower profits or pass on the price increase to consumers.

For instance, the Beer Institute - an industry group that represents US brewers - warned that aluminum tariffs would drive up prices of beer cans. In turn, the Beer Institute estimated that the increased costs would force brewers to save money in other areas, such as laying off workers, or drive up their prices for consumers.

Outside of just the beer industry, multiple studies estimated that the steel and aluminum tariffs would result in a net loss of US jobs and hurt the domestic economy.

The imposition of steel and aluminum tariffs do not occur in a vacuum. The US is also engaged in negotiations with the US and Canada with the goal of updating the North American Free Trade Agreement (NAFTA).

The talks around the monumental trade deal are currently stalled out and new tariffs aren't likely to help break the deadlock.

"I don't think it helps the NAFTA negotiations," Lester said. "Both Canada and Mexico will be put off by these tariffs, and may be less likely to agree to anything, for fear of looking like they are caving in to Trump's bullying."

The three countries are still trying to come to an agreement on a slew of major issues from rules on auto imports to the ability of investors to settle disputes with member countries. Given the delicate nature of these issues, which have vast implications for Mexico and Canada's economies, Trump's saber rattling may hurt more than help according to Alden.

"The steel and aluminum tariffs will have a poisonous effect on the NAFTA negotiations," Alden said.