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Obama Front-Runs Trump on China

The new 522% steel tariff will hurt U.S. companies. Worse may be coming.

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The Obama Administration may not sound like Donald Trump when talking about trade with China, but it isn't above using protectionism for political gain. On Tuesday the U.S. Commerce Department increased a tariff on "dumped" Chinese cold-rolled steel to 522%, a move that will hurt American manufacturers who need the steel to remain competitive.

The tariff might score some populist points with voters in an election year. It also may be a ploy to get lawmakers to ratify the Trans-Pacific Partnership trade agreement before President Obama leaves office. But past experience suggests that such gambits inflame protectionist sentiment rather than tamp it down.

President George W. Bush imposed tariffs of up to 30% on a broad range of Chinese steel products in 2002. The Consuming Industries Trade Action Coalition says the tariffs cost the U.S. economy 200,000 jobs and $4 billion in lost wages. The Obama Administration made a similar mistake in 2009, slapping "safeguard" tariffs on Chinese tires. Punitive tariffs on a range of other Chinese products followed, and Beijing retaliated with its own tariffs and cases at the World Trade Organization. Both sides are now in violation of WTO decisions that followed these tit-for-tat taxes.

Beijing's trade record is marred by export rebates and discrimination against foreign companies. Government policy in various forms is behind the quadrupling of Chinese-steel capacity since 2000, whether through cheap credit to build new mills or the wave of public construction projects after the 2008 financial panic. China now produces about half of the world's steel, and as its own demand has subsided the excess has flooded the world market, driving down prices.

But this is good news for the U.S. Since steel is an important raw material for many industries, China's trade partners benefit from its wasteful policies. Lower prices make companies that use steel more competitive and bring down prices for consumers.

Daniel Pearson of the Cato Institute conservatively estimates that American companies using steel produce $990 billion in value added, more than 16 times the output of the U.S. steel industry, and also employ 16 times more workers. If tariffs on Chinese imports raise the U.S. price of steel, these companies' costs will be higher than foreign competitors', hurting their ability to grow and provide more jobs for Americans.

U.S. steel makers and unions argue for high tariffs on the basis that steel users will buy American. But manufacturers complain that the U.S. mills don't produce the same range of products as the Chinese. So some will simply have to pay the tariff-inflated prices and endure the competitive damage.

The steel tariff is a warm-up for the fight over granting China market-economy status in December. Beijing's 2001 accession to the WTO included a 15-year adjustment in which China was treated as a nonmarket economy for purposes of antidumping investigations.

The U.S. and EU have been able to use input prices from other developing companies to estimate Chinese producers' cost of production. This lowered the evidentiary bar and resulted in high tariffs such as those on cold-rolled steel. Antidumping cases are dubious even without this statistical legerdemain, and U.S. unions and companies will lobby the next President to renege on the WTO accord.

The larger question is whether the steel tariffs herald a new and more bitter era of trade retaliation. Previous skirmishes have been damaging but stopped short of full escalation. But Mr. Trump and Hillary Clinton have run for President as protectionists, and Mr. Obama's surrender to steel interests is a bad omen. Chinese officials who think they can keep flooding the world with surplus goods could be in for as rude an awakening as U.S. consumers.