News Analysis: Washington's protectionism not cure for steel woes but to hurt manufacturing

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The massive duties that the Obama administration proposed to levy on Chinese steel products will not cure the U.S. steel industry's grave ills, but it will undoubtedly hurt American manufacturers that need the low-priced steel to remain competitive, U.S. experts have said.

The U.S. Department of Commerce said on Tuesday in a final ruling that imports of Chinese cold-rolled steel, primarily used in appliances, automotive products and construction, would be subject to anti-dumping duties of 265.79 percent and anti-subsidy duties of 256.44 percent.

A total of over 500 percent of punitive duties could come into effect in the coming months if the U.S. International Trade Commission (USITC), another trade authority, rules that the imports have caused injury to the U.S. steel industry.

The case comes at a time of increasing anti-trade rhetoric in the U.S. presidential campaign, which has complicated the path for the administration lobbying lawmakers to ratify the Trans-Pacific Partnership trade agreement before President Barack Obama leaves office in January 2017.

It also comes at a time when U.S. steelmakers increasingly resort to trade remedy case and tariff protection to ride out a sluggish steel market, as steel excess capacity has become an acute global challenge.

The United States has overtaken India as the leading user of anti-dumping and anti-subsidy investigations, with China and its steel sector the biggest target, the Financial Times reported on Sunday, citing an annual Global Trade Protection Report.

While tariff protection might prop up prices of the U.S. steel and score some populist points with voters in an election year, it can't improve market demand, save beleaguered steelmakers, or restore the health of the U.S. steel industry.

The United States has implemented 149 anti-dumping or anti-subsidy measures against steel imports, but "U.S. prices still are not high enough to make much of the U.S. steel industry profitable," said Daniel Pearson, a senior fellow and trade expert at the Cato Institute, a Washington-based thinktank.

"With domestic producers still suffering despite so much protection, it seems implausible to expect that a few more restrictions would alleviate their financial stress," said Pearson, who served as former commissioner and chairman at the USITC that oversees the U.S. trade remedy laws.

"After more than three decades of protection and subsidies, the United States has distorted competition in its domestic steel market, deprived local companies of motivation to increase investment or improve technology and subsequently blunted their competitive edge," the Chinese Ministry of Commerce said Saturday in a statement, blaming protectionism for the trouble of American steel.

U.S. steel mills and unions have argued for high tariffs on the basis that U.S. manufacturers will buy American-made steel.

But manufacturers have complained that U.S. steelmakers cannot produce all types of steel, and tariffs will lead to higher prices for imported steel and undermine their global competitiveness.

"The U.S. steel industry cannot supply all of the steel needed by U.S. steel consuming industries no matter the state of the global steel market," Rob Harris, managing director of the U.S. Industrial Fasteners Institute, said in written testimony for a public hearing on the global steel industry situation last month.

"Broad trade remedies and legislative actions that affect all steel of all kinds may produce temporary relief for a small number of steel producers, but they are blunt instruments that may also have unintended negative consequences on steel consumers," Harris said.

He urged the Obama administration to carefully consider the global nature of manufacturing supply chains and the impacts of any further trade enforcement tools affecting the availability and price of steel.

"The relative sizes of the steel-producing and steel-consuming sectors make clear why the United States loses when it imposes import restraints," Pearson argued in an analysis published on Tuesday, noting that steel import restrictions serve to harm the overall U.S. economy rather than help it.

Pearson estimated that American downstream manufacturers generated 990 billion U.S. dollars of value added to the U.S. economy in 2014, about 16 times higher than the output of the steel industry.

American companies using steel employed about 6.5 million workers, also 16 times more than employment in the primary metal manufacturing, which includes production of steel and all other metals, according to the trade expert.

"If tariffs on Chinese imports raise the U.S. price of steel, these companies' cost will be higher than foreign competitors', hurting their ability to grow and provide more jobs for Americans," The Wall Street Journal said in an op-ed published on Friday, sharing similar views with Pearson.

"The larger question is whether the steel tariffs herald a new and more bitter era of trade retaliation," the report said, warning that the Obama administration's surrender to steel interests could "inflame protectionist sentiment rather than tamp it down."

The steel industries in the United States and China should strengthen dialogue and communication to jointly address the overcapacity, and resorting to protectionism will not solve the problem, said the Chinese Ministry of Commerce.

The Steel Committee of the Organization for Economic Cooperation and Development has also said "long-term and comprehensive solutions derived from market-driven policies and open market principles" would be more effective as a means to minimize trade conflicts in the global steel sector.