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Trump's Tariffs Trigger Global Chain Reaction to Halt Imports

By ANA SWANSON, ALAN RAPPEPORT and IAN AUSTEN MARCH 27, 2018

WASHINGTON — The Trump administration's steel and aluminum tariffs are provoking a chain reaction around the globe, as governments from Europe to Canada prepare to erect barriers to prevent cheap metal once bound for the United States from entering their markets.

On Tuesday, Prime Minister Justin Trudeau of Canada announced a series of regulatory changes that would make it easier for border officials to block steel and aluminum imports into that nation. The European Union has begun a "safeguard investigation" that could result in tariffs or other trade actions if it determines that steel intended for the American market is being diverted to the bloc.

"These past few days, we've looked at strengthening the measures that we already have in place because it's important that we not be taking in dumped steel from around the world," Mr. Trudeau told reporters in Ottawa.

Foreign policymakers have long shared President Trump's concerns about cheap foreign steel flooding their markets, particularly from China. But Mr. Trump's stiff 25 percent steel tariffs and 10 percent aluminum tariffs, which will halt the flow of foreign metals into the United States, have prompted other countries to move more rapidly to curtail overseas imports.

The response could help Mr. Trump claim victory on one of his primary trade goals: cutting down on a glut of cheap Chinese steel, including metals that are routed through other countries through a process known as transshipping.

This month, Mr. Trump called transshipping “a big deal” and argued that China routes much more steel to the United States than the statistics show. Administration officials have contended that Chinese steel is lightly processed and shipped through other countries, but they have been unable to quantify the pervasiveness of this practice.

The American metals industry has long claimed that it is powerless against an onslaught of cheap metal from China, which now produces roughly half of the world’s steel and aluminum. Companies argue that past efforts to get China to reduce overcapacity have largely failed and that the only recourse is taking broader action that could galvanize a global movement.

Scott N. Paul, the head of the Alliance for American Manufacturing and a supporter of the tariffs, said countries were taking initial steps toward a series of agreements and discussions that could help to squeeze out overcapacity and anticompetitive practices.

“Other large steel countries and blocs will necessarily step up to the plate and take a tougher line with China and on transshipment and circumvention. I think you see that occurring in the E.U. with its safeguard investigation, and I think you see that with respect to the Canadian government,” he said. “I don’t think this is by any means the conclusion of the process. I think it’s just getting started.”

By restricting the supply of foreign metals in the United States, the tariffs are meant to raise the domestic price of those metals, which will translate into profits for struggling American metal makers. But in the process, more cheap metal will be available in markets outside the United States. That will push down the global price of steel and aluminum and create a two-tiered market.

After Mr. Trump announced his tariffs, trade unions and Canada’s steel and aluminum industries warned Mr. Trudeau that, without its own measures, Canada

could be flooded with cheap steel and aluminum from countries that export at artificially low prices.

European officials have also argued that, without protections, their companies could become collateral damage. Officials in Brussels have warned that they will take “safeguard measures” in the form of additional tariffs on steel products if an inquiry into the American tariffs shows there could be a significant surge in cheap steel imports.

“The E.U. is more than an innocent bystander,” said Fredrik Erixon, the director for the European Center for International Political Economy, a think tank based in Brussels.

The European Union already has “antidumping” tariffs on steel in place, mainly directed toward cheap Chinese imports. But the bloc’s leaders have also made clear they are prepared to do more and to exert diplomatic pressure on Beijing, pushing China to reduce government subsidies for its steel sector, cut import tariffs and open its market to American and European steel.

Some supporters of the tariffs see the moves as evidence that the Trump administration’s strategy is working. But other trade experts see this chain reaction as the first in a damaging series of actions that will end up raising the price of metals globally and making markets around the world less free.

Eswar Prasad, a professor of trade policy at Cornell University, said that although Mr. Trump’s approach appeared to be bearing fruit in the short term, it could ultimately hurt the trust of American trading partners and hamper the economy.

“Even if it looks like other countries are lining up on the U.S. side, and this is going to help in terms of reducing steel and aluminum supply, it may do very little for employment in those industries, and it may end up hurting other industries that use steel and aluminum as imports,” he said. “So we could end up with a somewhat Pyrrhic victory for the United States.”

For decades, the United States has been a primary driver in pushing to remove trade barriers globally, believing that these changes would increase trade and lift wealth around the world. The Trump administration has taken a drastically different approach, arguing that these beliefs have devastated domestic manufacturing and that tariffs and other restrictions are necessary to protect the American market from unfair trade practices.

Despite the president's initial statements that the measure would apply to all countries, Canada, Mexico, members of the European Union, Australia, Argentina, South Korea and Brazil have been exempted from the steel and aluminum tariffs. Together, the countries accounted for nearly two-thirds of American steel and aluminum imports last year.

The tariffs now fall on exporters that sent roughly \$18 billion in steel and aluminum to the United States in 2017 — mainly Russia, China, Japan, the United Arab Emirates, Taiwan, Turkey, Vietnam and India, according to research by Chad P. Bown, a senior fellow at the Peterson Institute for International Economics.

On Tuesday, Mr. Trump continued to push for global pressure on China during telephone calls with Chancellor Angela Merkel of Germany and President Emmanuel Macron of France. In both discussions, according to official readouts released by the White House, Mr. Trump raised China's unfair trading practices and its "illegal" acquisition of intellectual property.

Ana Swanson and Alan Rappeport reported from Washington, and Ian Austen from Ottawa. Milan Schreuer contributed reporting from Brussels.

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