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# Trade war's missed goals: the case of steel products

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## Abstract

Since the beginning of 2018 the Trump administration has taken various protectionist measures on US imports. No easing is in sight. In the run-up to the upcoming G-20 summit in Buenos Aires, US President has threatened to intensify protectionist measures on Chinese and European imports into the US.

The US economy is still doing well. Moreover, some simulations indicate that trade barriers could even give the US economy a net advantage. The data seems to contradict this. Using the example of import tariffs on steel products, this study shows that the targets set by protectionism are missed there.

## Zusammenfassung

Seit Anfang 2018 hat die Trump-Regierung verschiedene protektionistische Maßnahmen gegen US-Importe ergriffen. Keine Entspannung ist in Sicht. Im Vorfeld des kommenden G-20 Gipfels in Buenos Aires hat US Präsident mit erweiterten Maßnahmen auf chinesische und europäische Importe gedroht.

Der US Wirtschaft geht es weiterhin gut. Dabei zeigen manche Simulationen, dass die Handelsbarrieren der US Wirtschaft sogar einen Nettovorteil beschereen könnten. Die aktuellen Daten scheinen hier zu widersprechen. Am Beispiel der Importzölle auf Stahlprodukte zeigt diese Studie, dass die durch Protektionismus gesetzten Ziele dort verfehlt werden.



### **Is US protectionism a gain game?**

In a recent simulation study, Zoller-Rydzek and Felbermayr show that while customs duties on Chinese imports distort consumer decisions by US citizens, the transfer of customs effects to Chinese suppliers means that the US as a whole would achieve a net advantage of 18.4 billion US dollars.<sup>1</sup> Accordingly, US protectionism would prove successful. However, this simulation calculation seems to excessively simplify reality, as this paper of the effects of protectionism on steel imports shows.

### **US tariffs on steel imports**

Following the findings of a report from the Secretary of Commerce from January 11, 2018, stating “that steel articles are being imported into the United States in such quantities and under such circumstances as to threaten to impair the national security of the United States”, President Trump decided to use the “nuclear option” and imposed on March 8, 2018 a 25 percent ad valorem tariff on imports of steel articles from a large number of its trading partners, effective after 15 days.<sup>2</sup> Temporary exemptions were offered to Canada, Mexico and in the last minute to the EU, Australia, Argentina, Brazil and South Korea.<sup>3</sup>

In announcing the measure, President Trump claimed that “[t]his relief will help our domestic steel industry to revive idle facilities, open close mills, preserve necessary skills by hiring new steel workers, and maintain or increase production, which will reduce our Nation’s need to rely on foreign producers for steel and ensure that domestic producers can continue to supply all the steel necessary for critical industries and national defense.”

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<sup>1</sup> Zoller-Rydzek, B. und Felbermayr, G. (2018), „Wer bezahlt Trumps Handelskrieg mit China? Ifo Schnelldienst 22/2018, 71. Jahrgang, 22. November 2018.

<sup>2</sup> Proclamation 9705 of March 8, 2018, “Adjusting Imports of Steel Into the United States” by the President of the United States of America.

<sup>3</sup> Steel tariffs were extended on May 31, 2018 to the EU, Mexico and Canada, whereas they continue to be exempted for Argentina, Brazil and South Korea, which are together responsible for about 25% of steel imports into the United States.



**Figure 1. Trade balances in steel producing sectors, in millions US dollars.**



Source: Own elaboration Flossbach von Storch Research Institute, Macrobond, US Bureau of Economic Analysis.

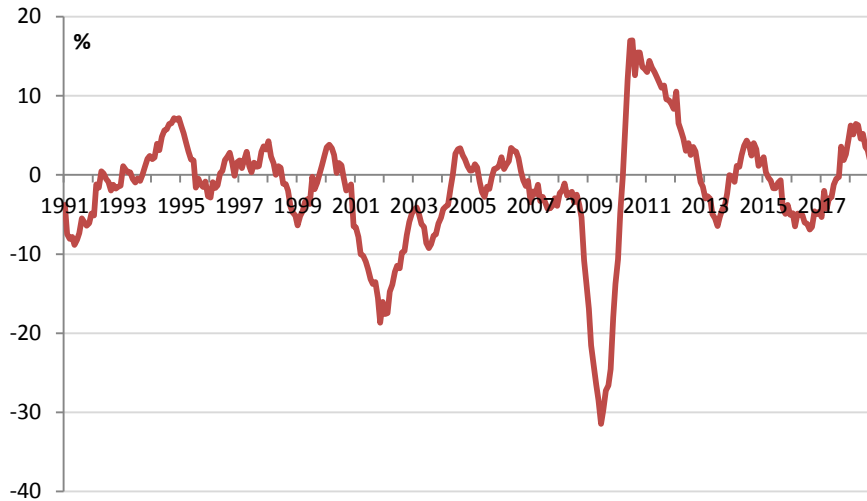
### **Economic effects of tariffs on steel**

In terms of trade effects, **Figure 1** shows that the trade balance of both iron & steel mill products and iron & steel producing sectors continued to deteriorate after the imposition of tariffs, which is in contrast with the expected effects.

Since April 2018, the growth of aggregated weekly working hours for production and non-supervisory workers in the primary metals sector (iron and steel production accounts for the largest share there) has also slowed from its cyclical high of March 2018 (**Figure 2**). It follows that after nine months in force, tariffs on steel have not reached their main goal.



**Figure 2. Growth (year over year) of aggregate weekly hours of production and non-supervisory employees in primary metals sector.**



Note: Primary metal manufacturing subsector consists of five industry groups: iron and steel mills and ferroalloy manufacturing, steel product manufacturing from purchased steel, alumina and aluminum production and processing, nonferrous metal (except aluminum) production and processing, and foundries.

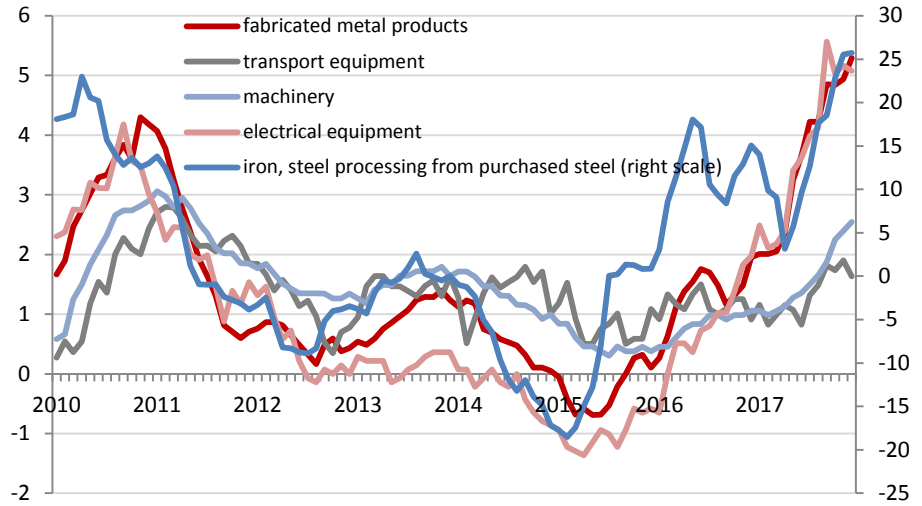
Source: Own elaboration Flossbach von Storch Research Institute, Macrobond, US Bureau of Labor Statistics.

What has happened in other interdependent sectors of the US economy, especially steel processing, machinery, metal products, vehicles and parts and electrical equipment? There is no evidence of a direct impact of tariffs on steel products on production volumes. At the same time, the production costs expressed in terms of the Producer Price Index (PPI) showed a remarkable dynamics (**Figure 3**). This is particularly true for iron and steel processing from purchased steel, where PPI inflation reached 25.7% in October 2018. However, the manufacture of metal products, electrical equipment and machinery also experienced a significant acceleration in PPI inflation after March 2018, exceeding historical averages. An exception to this is transport equipment, where PPI inflation rose relatively moderately from 0.8% in April to 1.9% in September.

If producer prices have accelerated, is there any evidence that the damage has been absorbed by the workers? Although total weekly working hours growth for metal products and electrical equipment has become somewhat less dynamic, the picture does not yet show clear damage (**Figure 4**). It is conceivable that the occurrence of this negative effect will take some time. It is less likely that this negative effect would be passed on through higher export prices.

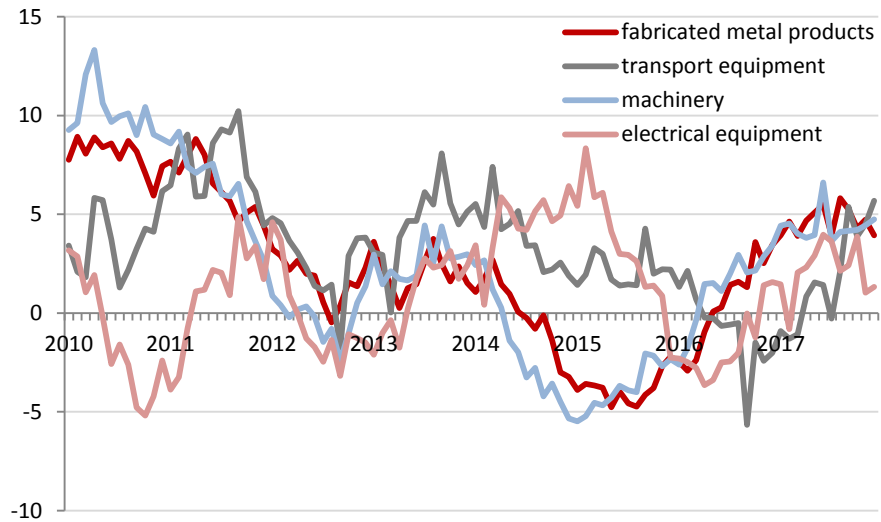


**Figure 3. Producer price index: percentage change year over year in the main US steel using sectors.**



Source: Own elaboration Flossbach von Storch Research Institute, Macrobond, US Bureau of Labor Statistics.

**Figure 4. Aggregate weekly hours worked: percentage change year over year in the main US steel using sectors.**



Note: Data on aggregate weekly hours worked in iron and steel processing from purchased steel are not available.

Source: Own elaboration Flossbach von Storch Research Institute, Macrobond, US Bureau of Labor Statistics.



## **Conclusions**

Trade wars are not as good and easy to win as Donald Trump claims. The case of the steel import tariffs shows that although no major damage has occurred so far, the first unintended negative effects are becoming visible in the steel processing industry in the USA. The longer the protectionist measures are in place and the broader they are, the more likely it is that they will soon have a more significant impact. More importantly, protectionist measures on steel have not been able to achieve their goal of supporting domestic production and employment in the protected sector. Ironically, employment dynamics in this sector have slowed since the introduction of protectionist tariffs.



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