

The U.S. wants to take on China with trade. The rest of the world will be caught in the middle

By Carlos Tejada and Karl Russell
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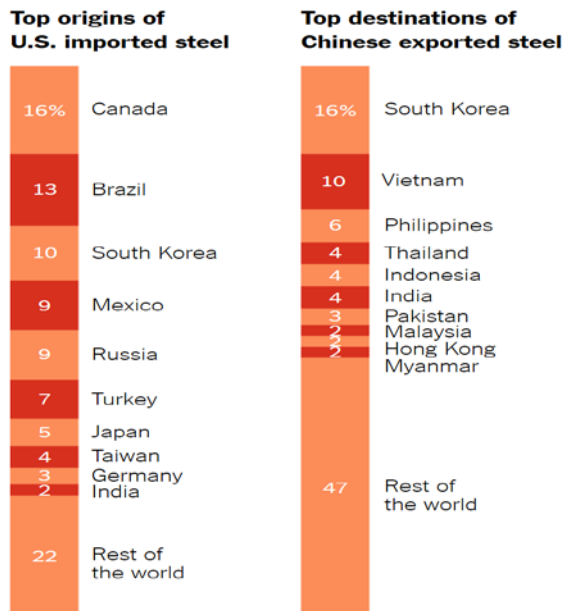
China was mentioned only in broad terms when President Trump announced plans to impose tariffs on steel and aluminum imports. But the country was a major driver behind the action. China makes large amounts of steel and aluminum, flooding the global market with cheap products. That hurts American producers, though it makes steel cheaper for everyone who uses it.

Targeting China alone wouldn't work. It is the world's largest steel maker, but sends only a tiny fraction of its output to the United States. Chinese steel makers serve mostly Asian markets.

The global nature of the tariffs has sparked worries that they will set off a trade war.

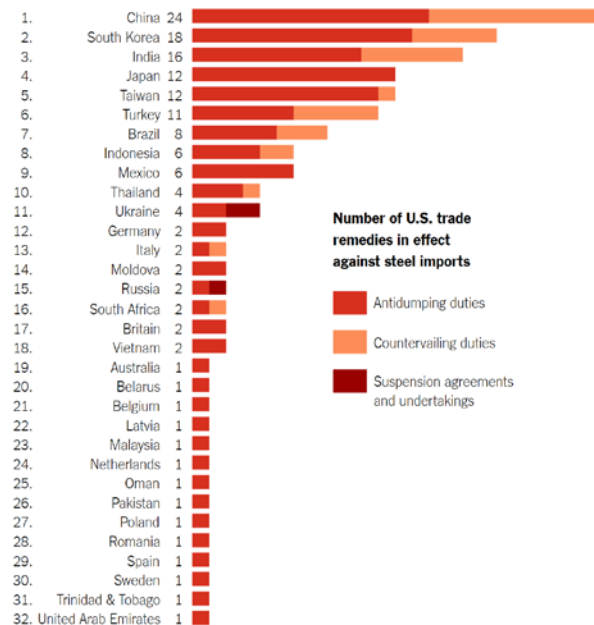
Already trying to protect U.S. steel

Steel has long been a sore spot in trade between the United States and China. Washington has levied more tariffs and countermeasures against Chinese steel than it has against steel from any other place.



By volume; first nine months of 2017 | Sources: U.S. International Trade Administration; IHS Global Trade Atlas

Instead, to hit China, the Trump administration must go much broader with its tariffs. While details are scant and the focus could change, the measures would hit steel from countries around the world, including from American allies like South Korea and Canada.



Through June 1, 2017 | Sources: U.S. International Trade Administration; World Trade Organization

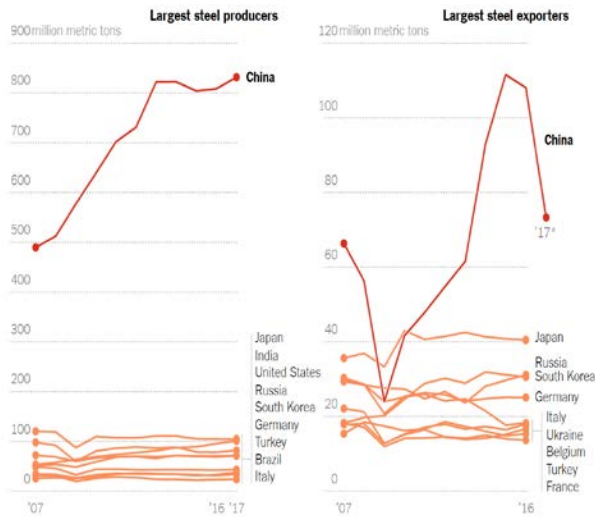
American steel makers argue that Chinese steel hurts them anyway. Faced with American tariffs, the argument goes, Chinese steel mills simply send their products elsewhere. That drives down global prices and pushes other countries to export cheap steel to the United States.

Appearing with Mr. Trump on Thursday, David B. Burritt, the chief executive of U.S. Steel, alluded to the idea when he referred to the steel trade issue as “the Whac-A-Mole game.”

But any global trade fight goes back to China. Thanks to its rapid industrialization over the past four decades, China now makes roughly as much steel as the rest of the world combined. While it consumes much of what it makes, China is also by far the world's largest exporter, although the amount it sells overseas has been on the decline.

Hurting trusted allies

In taking aim at China's steel makers with broad tariffs, the United States could hurt its trusted allies. Consider South Korea. China is the single biggest source of its imported steel. South Korea is also a major exporter to the United States. In terms of raw volume, however, South Korea's exports to the United States total about one quarter of what it imports from China.



Sources: World Steel Association; *Data for China in 2017 from the U.S. International Trade Administration shows a decrease of more than 30 percent from 2016.

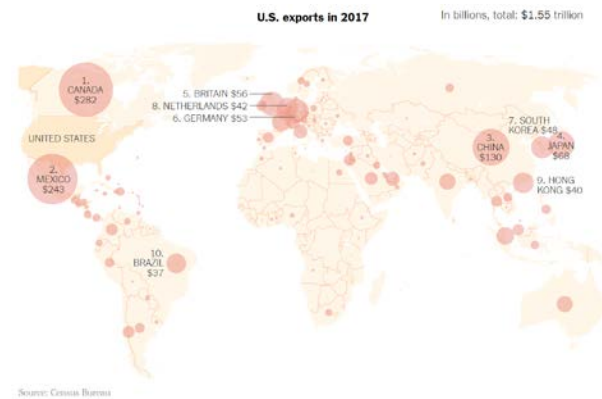
Canada, too, imports steel from China and South Korea; it exports steel to the United States. While the United States stands as its biggest market for steel both coming and going,

Canada exports more steel to the United States than it imports.

Others have the power to fight back

America's trading partners have room to retaliate. Some of the biggest steel exporters to the United States are some of the biggest buyers of American products.

The European Union has said it would target bourbon, blue jeans and Harley Davidson motorcycles, products with an especially American flavor. Canada has also threatened to fight



A trade war is far from guaranteed.

China has put greater emphasis on exporting higher-valued products, like finished machinery and high-tech goods, rather than raw steel. Beijing may not want to endanger its markets in those products.

But steel and aluminum may be only a first step. Administration officials have expressed concerns about China's growing ambitions in industries like semiconductors, telecommunications equipment and other high-tech exports.

If Mr. Trump goes after tech, the effects could eat into the Chinese economy. That could provoke Beijing to go much further.