US's Tariff Increase on Imports

Why in news?

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The US President Trump has imposed heavy tariffs on steel and aluminium imported from all countries except Canada and Mexico.

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What is the new tariff plan?

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- Trump has recently signed two proclamations on levying increased import duties.
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- They impose a 25% tariff on steel and a 10% tariff on aluminium imported from all countries except Canada and Mexico.
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- The tariffs will take effect in 15 days.
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Why is US tariff decision questionable?

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- The US has used the national security clause of the Trade Expansion Act to increase duty.
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- The US is both an exporter and importer of these items.
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- Notably, it meets 70% of its requirements from the domestic sources.
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- So there is no obvious threat to national security from imports as claimed by the US.
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How is tariff decision and US's WTO commitments related?

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- **Bound Duty** - The WTO makes member countries notify the bound duty (the ceiling duty) for each product.
- A country cannot increase its import duty for a product above this level.
- In fact, the actual import for a product takes place at the applied duty, which is generally lower than the bound duty.
- The **difference between the bound and applied duty** is called '**water'** in trade language.
- **US's commitments** - For the US, the 'water' is less than 1% on most items.
- So, if the applied duty on a product in the US is 3%, the country can increase it up to 4% and not higher than that.
- This low 'water' is the suo moto commitment taken by the US at the WTO.
- This was taken with the conviction that low import duties are a must for national development.
- Since the US cannot increase duties under this, it has used the WTO security exception for the present duty increase.
- Clearly, the decision of choosing a low water policy by the earlier US governments has restricted Trump's policy options.
- He had earlier expressed his dissatisfaction with the trade deals and reasoned it for US's trade deficit.
- **Other Countries** - The EU, Japan, and most other developed countries have also chosen for less than 2% water.
- However, most of the developing countries did not agree with the US on this then.
- They chose to retain high water for most products, so as to raise the applied duty up to the level of bound duty when needed.
- As a result, if India raises duty on steel from 10% to, say, 20%, it does not

violate the WTO law, as the bound duty on steel is 40% for India.
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What are the implications?

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- **Cost** - Trump’s decision has domestic and trade costs. A 25% duty on steel will increase the domestic steel price by 5%.
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- This could lead to an increase in the input cost for some industries, further leading to high cost of their products for consumers.
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- This may create inflationary pressure, leading to high-interest rates and dollar appreciation.
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- This may have negative impact on both the economy and exports.
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- **Industries** - Many steel and aluminium user industries may not compete at higher costs.
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- They may have to shut down, leading to job losses.
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- **China** - The largest supplier of steel and steel products to the US is China and not Canada or Mexico as widely reported.
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- China could retaliate by making import restrictions from the US, which may become disadvantageous for the US firms.
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- It has already started investigations into the billion dollar imports of the grain sorghum from the US.
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- China could also dump some of the $4 trillion US Treasury bonds it holds, creating disruption in the US market.
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- **Other Countries** - The affected countries are already talking about taking retaliatory measures.
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- Countries may also take the US to dispute settlement at the WTO.
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- The duty decision is potential of further weakening the multilateral trade architecture.
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- **Steel Sector** - The US duty on steel and aluminium also mean that the global surplus would have to be dumped in some other countries at a lower price.
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- The steel sector already plagued with excess capacity would face more turmoil.
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What are the implications for India?

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- The protectionist measure by the US and potential counter-measures by other countries might hurt the steel industry globally.
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- This might put downward pressure on steel and aluminium prices.
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- This is a cause of worry for Indian metal companies as manufacturers have to look for newer markets.
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- Indian metal producers with exposure to Europe and the United States already warned of increased costs and lower sales.
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- This might affect the recent recovery in the volume growth and profitability of metal producers.
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- A downward pressure on the stock price of metal companies would also make it tough to raise fresh equity capital for debt-repayment or capacity expansion.
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Source: Business Line

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