

## **US's Tariff Increase on Imports**

### **Why in news?**

\n\n

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

\n\n

### **What is the new tariff plan?**

\n\n

\n

- Trump has recently signed two proclamations on levying increased import duties.

\n

- They impose a 25% tariff on steel and a 10% tariff on aluminium imported from all countries except Canada and Mexico.

\n

- The tariffs will take effect in 15 days.

\n

\n\n

### **Why is US tariff decision questionable?**

\n\n

\n

- The US has used the national security clause of the Trade Expansion Act to increase duty.

\n

- The US is both an exporter and importer of these items.

\n

- Notably, it meets 70% of its requirements from the domestic sources.

\n

- So there is no obvious threat to national security from imports as claimed by the US.

\n

\n\n

## How is tariff decision and US's WTO commitments related?

\n\n

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

\n

\n\n

## **What are the implications?**

\n\n

\n

- **Cost** - Trump's decision has domestic and trade costs. A 25% duty on steel will increase the domestic steel price by 5%.

\n

- This could lead to an increase in the input cost for some industries, further leading to high cost of their products for consumers.

\n

- This may create inflationary pressure, leading to high-interest rates and dollar appreciation.

\n

- This may have negative impact on both the economy and exports.

\n

- **Industries** - Many steel and aluminium user industries may not compete at higher costs.

\n

- They may have to shut down, leading to job losses.

\n

- **China** - The largest supplier of steel and steel products to the US is China and not Canada or Mexico as widely reported.

\n

- China could retaliate by making import restrictions from the US, which may become disadvantageous for the US firms.

\n

- It has already started investigations into the billion dollar imports of the grain sorghum from the US.

\n

- China could also dump some of the \$4 trillion US Treasury bonds it holds, creating disruption in the US market.

\n

- **Other Countries** - The affected countries are already talking about taking retaliatory measures.

\n

- Countries may also take the US to dispute settlement at the WTO.

\n

- The duty decision is potential of further weakening the multilateral trade architecture.

\n

- **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.  
\n
- The steel sector already plagued with excess capacity would face more turmoil.  
\n

\n\n

### **What are the implications for India?**

\n\n

- The protectionist measure by the US and potential counter-measures by other countries might hurt the steel industry globally.  
\n
- This might put downward pressure on steel and aluminium prices.  
\n
- This is a cause of worry for Indian metal companies as manufacturers have to look for newer markets.  
\n
- Indian metal producers with exposure to Europe and the United States already warned of increased costs and lower sales.  
\n
- This might affect the recent recovery in the volume growth and profitability of metal producers.  
\n
- 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.  
\n

\n\n

\n\n

**Source: Business Line**

\n

