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Trade Tensions Escalate After Trump Administration Imposes Steel and Aluminum Tariffs on Allies and Technology Tariffs on China

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On Thursday, May 31, President Trump announced he would impose tariffs on imported steel and aluminum from the European Union, Canada, and Mexico, triggering immediate retaliation from U.S. allies and protests from American businesses and farmers. The tariffs – 25 percent on steel and 10 percent on aluminum – took effect at midnight that night, marking a major escalation of the tension between the United States and its top trading partners. Stung by the U.S. action, the allies quickly hit back. The E.U. stated it would impose import taxes on politically sensitive items like bourbon from Senate Majority Leader Mitch McConnell's home state of Kentucky. Mexico said it would levy tariffs on American farm products, while Canada zeroed in on the same metals that Trump had targeted.

Canadian Prime Minister Justin Trudeau claimed that a NAFTA agreement was nearly at hand, but the negotiations were derailed after Vice President Pence demanded that any new North American trade deal be renewed at five-year intervals. Commerce Secretary Wilbur Ross stated that the decision to impose the tariffs is a "reflection that the [NAFTA] discussions didn't get far enough to justify another postponement or an exemption." However, both Canada and Mexico have repeatedly claimed they will not bend if Trump uses the economic penalties as leverage in the NAFTA talks.

House Speaker Paul Ryan (R-WI) previously stated that a deal on NAFTA needed to be reached by May 17 for Congress to be able to consider it under the time constraints set out in fast-track rules. With that deadline now passed, the negotiations could drag on for months. Even if U.S. Trade Representative Robert Lighthizer can reach an agreement this year, it would be up to the next Congress – one whose composition will be determined by the November midterm elections – to ratify it.

Negotiations on NAFTA continue at the technical level, but they are now also under the cloud of retaliatory tariffs from both neighboring countries. Starting July 1, Canada will impose duties on about \$12.8 billion worth of U.S. imports. The tariffs will target steel and aluminum imports from the U.S., but also agricultural and manufactured goods like cucumbers, laundry detergent, and mattresses. Mexico will impose tariffs on \$8 billion in American pork, blueberries, lamps, and other goods. Mexican Economy Secretary Ildefonso Guajardo indicated to reporters on the sidelines of a summit in Paris that his government is taking the action under the rules of NAFTA, which will allow the country to impose its retaliatory tariffs as soon as this week.

Separately, on June 15, President Trump announced he would impose a 25 percent tariff on up to \$50 billion on Chinese goods that "contain industrially significant technologies" in response to China's alleged theft of intellectual property and technology and other unfair trade practices. China quickly responded by announcing tariffs on up to \$50 billion of U.S. goods, including up to \$34 billion on agriculture and automobiles. The new tariffs on China received a mixed reaction from lawmakers and private stakeholders. Senate Minority Leader Chuck Schumer (D-NY) praised President Trump for taking on China's theft of intellectual property. In contrast, some Republicans, such as Senator Orrin Hatch (R-UT), and other pro-business groups issued statements criticizing the tariffs for inviting retaliation that would harm American businesses and consumers. Taken together, these actions represent the latest escalations in ongoing trade tensions with major countries that

President Trump considers to be employing unfair trade practices, with uncertain implications for the U.S. economy.