

Canada and Mexico retaliated against the United States' decision on Thursday to impose tariffs on steel and aluminum imports and the European Union had its own reprisals ready to go, reigniting investor fears of a global trade war.

The tariffs, announced by U.S. Commerce Secretary Wilbur Ross in a telephone briefing on Thursday, ended months of uncertainty about potential exemptions and suggested a hardening of the Trump administration's approach to trade negotiations.



Cartoon on US President Donald Trump. SCMP

The measures, touted by President Donald Trump in March, drew condemnation from Republican lawmakers and the country's main business lobbying group and sent a chill through financial markets.

The Dow Jones Industrial Average lost 1 percent and the S&P 500 shed around 0.66 percent. Shares of industrial heavyweights Boeing fell 1.7 percent and Caterpillar 2.2 percent.

A 25 percent tariff on steel imports and 10 percent tariff on aluminum imports will be imposed on the EU, Canada, and Mexico from midnight (0400 GMT on Friday), Ross told reporters.

"We look forward to continued negotiations, both with Canada and Mexico on the one hand and with the European Commission on the other hand, because there are other issues that we also need to get resolved," he said.

Canada and Mexico, embroiled in talks with the United States to modernize the North American Free Trade Agreement (NAFTA), responded swiftly.

Canada, the largest supplier of steel to the United States, will impose tariffs covering C\$16.6 billion (\$12.8 billion) on imports from the United States, including whiskey, orange juice, steel, aluminum and other products, Canadian Foreign Minister Chrystia Freeland said.

"The American administration has made a decision today that we deplore, and obviously is

going to lead to retaliatory measures, as it must," Prime Minister Justin Trudeau said at a news conference with Freeland.

Mexico announced what it described as "equivalent" measures on a wide range of U.S. farm and industrial products.

The measures, which target pork legs, apples, grapes, and cheese as well as steel and other products, will be in place until the U.S. government eliminates its tariffs, Mexico's Economy Ministry said.

The S&P 500's packaged foods and meats industry sub-index fell 2 percent, with shares of meat producer Tyson Foods Inc falling 4 percent, Campbell Soup Co 2.5 percent and spice maker McCormick & Co Inc 3 percent.

The Mexican peso dropped about 1 percent and the Canadian dollar shed about 0.6 percent. At its low, the peso was at its weakest against the dollar in nearly 15 months.

The EU threatened tariffs on Harley Davidson motorcycles and bourbon, measures aimed at the political bases of U.S. Republican legislators. Shares of Harley-Davidson Inc fell 2.17 percent and Brown-Forman Corp, maker of Early Times and other bourbon brands, lost 2.1 percent. EU members have given broad support to a European Commission plan to set duties on 2.8 billion euros (\$3.4 billion) of U.S. exports if Washington ends tariff exemptions. EU exports potentially subject to U.S. duties are worth 6.4 billion euros (\$7.5 billion).

"It's entirely up to U.S. authorities whether they want to enter into a trade conflict with their biggest partner, Europe," France's Finance Minister Bruno Le Maire said after meeting with Ross on Thursday.

U.S. Chamber of Commerce President Tom Donohue warned in a letter seen by Reuters to the body's board that current trade policies could threaten "economic progress" and cause the loss of more than 2 million jobs, mostly in states that voted for Trump and Republican candidates.

## **'Significant Threat'**

The tariffs are part of Trump's effort to protect U.S. industry and workers from what he described as unfair international competition, a key theme of his "America First" agenda.

Temporary exemptions were granted to a number of nations and permanent ones to several countries including Australia, Argentina, and South Korea. U.S. trading partners had demanded that the exemptions be extended or made permanent.

The tariffs are aimed at allowing the U.S. steel and aluminum industries to increase their capacity utilization rates above 80 percent for the first time in years.

Shares of U.S. Steel Corp rose 1.7 percent, but AK Steel fell 1.3 percent and Steel Dynamics Inc shed 0.9 percent. Shares of Century Aluminum Co jumped 3.3 percent but Alcoa Corp shed 0.9 percent.

## **EYES ON CHINA**

The U.S. administration also launched a national security investigation last week into car and truck imports, using the same 1962 law it has applied to curb incoming steel and aluminum.

“The Trump administration seems to regard overt threats, including tariffs and repudiation of previous agreements, as a key element for gaining leverage in trade negotiations,” said Eswar Prasad, a former head of the International Monetary Fund’s China division and now a professor at Cornell University.

Prasad warned that the United States was doing so at the cost of alienating key allies and undercutting broad international pressure on China to change its trade and economic practices.

Ross himself heads to Beijing on Friday where he will attempt to get firm deals to export more U.S. goods in a bid to cut America’s \$375 billion trade deficit with China.

The Trump administration has demanded that Beijing make concessions and threatened to punish it for allegedly stealing U.S. technology by imposing tariffs on \$50 billion of imports from China.

While China is seen at more risk from a trade war as its exports are larger than its imports from the U.S., the operations of American companies in China make substantial sales there, which could be hit by any turn in sentiment.

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