Insight

Steel Imports and National Security

JACQUELINE VARAS | JULY 12, 2017

Executive Summary

- The Trump Administration recently launched a Section 232 investigation to determine whether steel imports threaten U.S. national security
- Section 232 investigations are rarely utilized and have only resulted in two prior import restrictions
- Limiting steel imports with tariffs, quotas, or other means would threaten our trading relationships, harm the U.S. economy, and likely result in retaliation from our trading partners

President Trump issued an executive order in April urging the secretary of commerce to investigate steel imports under Section 232 of the Trade Expansion Act of 1962. Specifically, he called for an investigation into how purchasing steel from other nations threatens U.S. national security. This is the fourteenth Section 232 investigation launched since 1980 and signifies a meaningful shift in U.S. trade policy.

Most import investigations are conducted in part by the U.S. International Trade Commission (USITC), an independent federal agency. U.S. businesses typically petition USITC to have tariffs or other restrictions placed on imports priced below market value, either due to government subsidies in the exporting nation or a global oversupply of the product. USITC has performed thousands of these inquiries, called antidumping and countervailing duty investigations, to determine if U.S. industry has been harmed.

Section 232 investigations are different. They are conducted chiefly by the secretary of commerce and are self-initiated either by the Department of Commerce or at the request of the president. Businesses do not need to petition the government for this type of investigation.

Section 232 is a special type of investigation which examines how U.S. reliance on certain imports would impact the United States during a time of war, when international trade would likely be restricted. It also considers factors such as domestic industry's capacity to meet production requirements and the relationship between economic health and national security. During a recent congressional hearing, Commerce Secretary Wilbur Ross explained his defense of the president's executive order: "steel is used in over 100,000 different products that the military needs, and there's no steel mill in the country that can operate just on government business."

Only two previous Section 232 investigations have resulted in actions taken by the United States to restrict imports. The last time was in 1982, when President Reagan embargoed all crude oil from Libya. The other instance led to an Iranian oil embargo in 1979. However, both of the previous administrations made their own efforts to curb steel imports.

In 2016, the Obama Administration imposed tariffs as high as 266 percent on certain steel products from China to shield American manufacturers from competition. Similarly, George W. Bush placed emergency tariffs on

steel of up to 30 percent in 2002. This was met with immediate backlash: multiple nations joined a lawsuit against the United States, and the World Trade Organization (WTO) ruled that the action was illegal. The European Union also threatened to impose $2.2 billion in retaliatory tariffs on the United States. President Bush withdrew the tariffs less than two years after they were imposed.

President Trump has spoken at length about his desire to make trade fair for American workers, and this investigation undoubtedly plays a role. However, trade restrictions will likely harm our closest allies. The United States imports more steel from Canada than any other nation. Other top exporters of steel to the United States are Brazil, South Korea, and Mexico. It is unlikely that the United States would have a military conflict with these nations.

Instead, the administration is likely targeting China. China produces half of the world's steel and has been criticized for steelmaking overcapacity as a result of government subsidies. The president has also repeatedly condemned China for unfair trade practices. However, China is not included in the top ten source countries of U.S. steel imports, which account for 81 percent of total steel imports. Furthermore, China, the European Union, and other top U.S. trading partners have threatened to retaliate against the United States if the president pursues action under Section 232.

In addition to inviting legal action, imposing steel tariffs would also harm the American economy. International trade is a leading driver of economic growth: it promotes competition, encourages specialization, and increases U.S. productivity. Restricting steel trade would increase costs for U.S. manufacturers who utilize lower-priced steel imports, which would, in turn, raise costs for consumers. These tariffs would likely translate into higher-priced microwaves, washing machines, and other consumer goods.

Every living former Chair of the President's Council of Economic Advisers (excluding those currently serving in public office) recently signed a letter to President Trump urging him not to take action on steel imports under Section 232. Pursuing trade restrictions would result in harmful economic consequences, potential legal action, and likely retaliation from our trading partners. It would also hurt American producers and consumers.