

Trump's Trade War: what does this mean for Australian Businesses?

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In brief

United States (US) President Trump recently proposed to implement a 25 per cent tariff rate on steel imports and a 10 per cent tariff rate on aluminium imports in response to a national security recommendation.¹

Australia's steel and aluminium exports will be exempted from the proposed tariff. A key factor in this decision was Australia's strategic alliance with the US. This move from President Trump signals that if future additional tariffs are imposed on other industries, such measures may have a reduced impact on Australian exports to the US.

However, the tariffs present significant volatility in global trade policy.

Australian businesses with global operations should assess their supply chains and develop sourcing strategies to ensure they can be nimble in reacting to any further actions by the US, in addition to potential retaliatory actions of non-exempted countries.

In detail

President Trump's recent announcement to implement a 25 per cent tariff rate on steel imports and 10 per cent tariff rate on aluminium imports has had some commentators suggesting the US is 'dragging the world closer to a potential trade war'.² This decision was based on findings that the underperforming US steel and aluminium sector pose a threat to national security. The imposition of tariff rates on steel and aluminium imports would also serve to address the issue of systemic global over-capacity and global dumping of these goods.

This represents the first direct protectionist action by the US since its withdrawal from the Trans Pacific Partnership. While it is expected to yield short-term benefits for particular segments of the US economy, reverting to a protectionist trading system is likely to have a negative effect on growth and employment around the world.

Possible retaliation from trading partners

In response to the announcement of these measures, Canada and Europe threatened to hit back with similar measures on major US imports. However, Canada has since been exempted from these measures, at least until the next negotiations for the North American Free Trade Agreement take place. In addition, hopes originally centred on China exercising restraint for the sake of continued economic growth and development which comes with trade liberalisation, especially since its steel and aluminium exports only

¹ Keith Johnson, 'Here Comes Trump's Trade War', Foreign Policy [website], (1 March 2018) <<http://foreignpolicy.com/2018/03/01/here-comes-trumps-trade-war-steel-aluminum-tariffs-232/>>, accessed 6 March 2018.

² Paul Colgan, 'Donald Trump's tough trade talk threatens a new wave of uncertainty for Australia's economy', Business Insider [website], (5 March 2018), <<https://www.businessinsider.com.au/donald-trump-trade-war-impact-on-australia-2018-3>>, accessed 6 March 2018.

account for 0.03 per cent of its Gross Domestic Product.³ However, China has since promised a necessary response to these tariffs, the nature of which remains unclear.

The European Commission has also declared it will respond firmly, and will join others in a challenge at the World Trade Organisation (WTO). The European Union (EU) has put forward a potential 25 per cent tariff on €2.8 billion (USD\$3.5 billion) worth of goods from the US.⁴ These figures assume the US tariffs will cover all EU steel. Australia has indicated it will not be involved in taking action to the WTO.

The impact to Australian businesses

For Australian businesses exporting to the US, it appears at this stage to be a positive story.

While there were initial serious concerns amongst the Australian steel industry, President Trump has since signalled that defence allies will be exempt from such measures. Thus, behind Canada and Mexico, Australia's steel and aluminium exports will be exempt from the proposed tariffs. Such a decision is testament to the longstanding relationship between the two countries.

This move from President Trump signals that if future additional tariffs are imposed on other industries, such measures may have a reduced or no impact on Australian exports to the US. With Australia's major exports to the US being:

- beef and other meat,
- aircraft, spacecraft and parts, and
- pharmaceutical products,

Australian businesses can look to this proposed exemption with confidence, knowing a precedent has been set for the US to protect the interests of its allies. These goods are also covered under the Australia-US Free Trade Agreement (the FTA), whose provisions offer an additional layer of security. US Vice President Mike Pence has described the FTA as a "model for the world",⁵ which is indicative of the US' strong regard for the FTA and the Australia-US relationship.

Tempering these positive overtures somewhat however is the commentary suggesting the potential that presidential executive power will be available going forward in deciding which countries will be included or excluded from the policy. In the current political environment this would bring with it a continued uncertainty around protection, however details of this and many other factors influencing this policy will not become clearer until the actual law is presented and released.

Australian businesses with global operations may be impacted by the proposed tariffs and potential future retaliatory actions by other countries. Australian business who supply goods to the US from markets outside the exempted list should assess their global supply chains and develop sourcing strategies to ensure they can react quickly to further potential actions by both the US and other countries.

The scale of the retaliatory response is one to watch, as Australia would no doubt be exposed should a trade war break out. Given Australia's reliance on China as an export destination, a trade war would create a quandary for Australian policymakers. The need to balance between economic interests tied heavily to the Chinese market and long standing military, political and economic ties with the US would be a complicating factor in future diplomatic and trade relations with both countries.⁶

The takeaway

President Trump's proposed tariffs should have a limited impact on Australian businesses right now given our exemption. However, the potential for a broader trade war is concerning and an issue that Australian businesses with global operations should monitor. Australian businesses should continue to seek out cost saving opportunities through their global supply chains and be nimble in response to global challenges and protectionist policies emanating from the US, or elsewhere.

³ Ibid.

⁴ Phillip Blenkinsop, 'Exclusive: EU may target \$3.5 billion of U.S. imports for trade retaliation – sources', Reuters, (March 3 2018) <<https://www.reuters.com/article/us-usa-trade-europe-measures-exclusive/exclusive-eu-may-target-3-5-billion-of-u-s-imports-for-trade-retaliation-sources-idUSKCN1GE2FO>>, accessed 6 March 2018.

⁵ Tony Makin, 'Why Trump's tariffs will have little impact on Australia and a trade war is unlikely', The Conversation, <<https://theconversation.com/why-trumps-tariffs-will-have-little-impact-on-australia-and-a-trade-war-is-unlikely-93053>>, accessed 6 March 2018.

⁶ Adam Baidawi, 'How Trump's Tariffs Would Affect Australia', New York Times, <<https://www.nytimes.com/2018/03/07/world/australia/trump-tariffs-australia.html>>, accessed 6 March 2018.

Let's talk

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