

“Trade War: The Sky Is Falling Down, Again” By Musafir

“Lord, what fools these mortals be.” (Shakespeare: A Midsummer Night’s Dream).



The sky is falling down again and Chicken Little is running for cover. This time it is the Trade War. The American industry will be destroyed and the Americans will suffocate under the burden of indirect taxes because the Chinese and the European gods are furious and breathing fire on us wanting to retaliate and impute us. Oh Boy! Didn't I hear this before?

On Thursday, March 1, 2018, President Trump announced tariffs of 25% on steel and 10% on aluminum, promising that they would protect U.S. producers “for a long time.” The media pundits have been busy predicting grave economic consequences for the US economy as a result of Mr. Trump’s announcement. The news channels can’t get over their indefatigable coverage of retaliation from

China and Eurozone. The economists are insatiably predicting apocalypse now (as usual). The Wall Street indices plunged by 1,100 points in days following the above announcement.

Relax! Don’t panic yet. Think for yourself; do some research. I did. What happened when Mr. Trump slapped hefty tariffs on imports of solar panels and washing machines from China on January 24, 2018? Despite the doomsday predictions by the media and economists alike, China lowered the price of washing machines to compete in the U.S. market and decided to build the solar panels here on the U.S soil. How soon do we forget!

First of all, China and Eurozone are no Mother Teresa. They have been taking advantage of the USA’s generosity for years without reciprocating despite America’s cry in wilderness and now they are crying foul again. Let’s examine the facts:

USA normally sets import duties between 5 to 12% which includes imports from China. In contrast China levies 13% tariff on food and 18 to 30% on industrial goods and electronics imported from the U.S. Eurozone places 6.4% tariff on industrial and 16.1% on food items coming from the U.S. India has put 100% duty on Harley Davidson exported from Wisconsin and charges 60% duty on auto parts. USA charges 0% on motorbike imports from India. The maximum import fee charged on all Indian goods doesn’t exceed 6%. Brazil and Japan have similar stories. That’s a topic for another day. (Sources: Chinaimportal.com, Export.Gov, China-briefing.com, commers.gov)

Fear mongers have been spreading the rumor that import duties proposed by Mr. Trump will add indirect tax to the U.S. consumers. Yes, to some extent! Soda and beer cans will cost one cent more and automobile will cost on average \$45 to \$145 more depending on the model. That's peanuts compared to how many steel and aluminum industry jobs it will save. Nothing is totally free in this world.

If China and the Eurozone decide to go on trade war with the USA, they can't win. The U.S. economy remains the largest in the world in terms of GDP. The \$19.42 trillion U.S. economy is 25% of the gross world product. USA is the greatest spender in the world outpacing the rest by a wide margin. USA's GDP per capita is \$57,638 compared to Eurozone's per capita of \$39,100 and China's \$6,333. Who'd the world like to do business with without affecting their own economy? Go figure!

The Eurozone unemployment rate is 9.4% while the USA is inching towards full employment. China being a communist country, their figures are always dubious. Additionally, China is losing its competitive advantage quite fast. Chinese labor is getting more expensive. Consulting firm Oxford Economics estimated recently that China's unit labor costs were just 4% lower than those in the U.S. It's now cheaper to pay factory workers in Japan than in China, per unit of output (Source: www.bloomberg.com). In case you have not been paying attention, Mr. Xi Jinping just became a lifelong dictator of the Chinese people so that he can avoid the wrath of his countrymen in coming days. Just the other day, the Europeans were going gaga on the prospects of China replacing the USA as the new moral leader of the world. "Lord, what fools these mortals be." (Shakespeare: A Midsummer Night's Dream).

The US Commerce Secretary, Mr. Wilbur Ross summed it up succinctly, "American employees have borne the brunt of all the imported steel and aluminum that's been coming in. Corporate America might complain, but the president is taking up the banner of Mr. and Mrs. America."

(The writer is not an economist. If you want to contradict, correct and/or educate him, you are very welcome to do so.)