Global Supply Chain News: US-China Trade Dispute Ratchets up a Notch, as US Imposes Strong Tariff on Steel Oil Pipes

Most Think Strong Protectionism Unlikely, but Cost for Some Importers Going Up; "Skepticism about Trade" Here, US Official Says

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As US-China trade tensions heat up, is it likely to result in erection of real trade barriers?

While mildly simmering since the beginning of the Obama term, trade tensions got a bit hotter in September when the US slapped substantial tariffs on Chinese tire imports, alleging Chinese manufacturers were dumping tires, or selling them below cost into the US. (See **Furor over Decision to Hit China Hard on Tire Tariffs, as Fears of Renewed Protectionism Rise**.)

That caused China to say it was going to take a look at a variety of US-made products imported into China, and some US labor and industry leaders to push for consideration of similar US actions against other categories of Chinese imports. The issue is a tricky one for US firms, as some might welcome tariff protection while others would see the costs for their imports of certain goods skyrocket.

Last week, the tensions ratcheted up another level, as the US imposed preliminary anti-dumping duties ranging up to 99% on Chinese-imported oil well pipes – the strongest US trade action against China since it joined the World Trade Organization.

The preliminary decision came after complaints about Chinese dumping of these pipes were received from several steel producers, led by U.S. Steel Corp.

China used strong language to protest the US action.

Yao Jian, spokesman for China's Ministry of Commerce, said that, "The oil well pipe case involves $3.2 billion in annual exports, mostly in the high end. It has a big impact on China's steel products export. The US denied China's market economy status and took discriminative measures to impose anti-dumping duties, bringing serious impacts to China's steel sector exports."

While the smart bet is that neither the US or China will let this get out of hand, companies need to stay on top of these developments.

He added: "China strongly opposes the abusive protectionism. We will take action to protect domestic enterprises."

In the last few months, the US has initiated at least a dozen anti-dumping or countervailing duty investigations into Chinese products.

For example, last Friday, the U.S. International Trade Commission pushed ahead with two new investigations, announcing probes covering Chinese exports of certain types of paper as well as a class of salts that are used in cleaning products, food additives and fertilizer.

However, the ITC later voted 6-0 to reject an investigation into charges that China and Taiwan were dumping standard steel fasteners into the US, a decision that China immediately dubbed the "correct judgment."
In retaliation to the oil pipe action, China says it has begun investigating imports of some US automobiles for possible dumping or subsidies that unfairly benefit US manufacturers. However, as the

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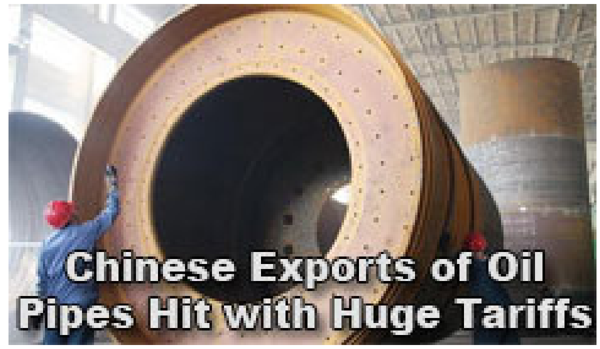
US exports very few cars into China, the Chinese action is viewed as mostly symbolic.

So far, these actions and statements are generally viewed as being low level, and not a threat for any wide break out of protectionism coming from escalating actions and responses.

Still, with President Obama set to visit China next week for the first time, some in the US government are once again jaw-boning about the need for China to revalue its currency. With the great US trade deficit with China, many in the US are calling for greater yuan appreciation, which in turn would make the price of Chinese exports relatively more expensive, protecting US manufacturers.

With its export driven economy that has taken a beating in the global recession, China is naturally reluctant to make any such currency adjustments. Unlike most developed countries, China's currency valuation does not float freely in the market, but is pegged by the government to the value of the dollar and other currencies.



Meanwhile, U.S. State Department official **Robert Hormats**, who is in Beijing this week, surprised some by saying in a speech to university students that "Support for international trade in the United States is much less today than it was several years ago…there is skepticism about trade, and I have to say that to you candidly."

While the smart bet is that neither the US or China will let this get out of hand, companies need to stay on top of these developments. If the pipe tariff holds, for example, it will have a substantial impact on