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# National Security Is a Good Reason for Protection. But Not of Steel and Aluminum

If countries begin ignoring the WTO by slapping high tariffs and quotas on each other, global trade could shudder to a halt.

By Peter Coy

The biggest problem with President Trump's steel and aluminum tariffs <https://www.bloomberg.com/news/articles/2018-03-01/trump-is-said-to-delay-decision-on-steel-and-aluminum-tariffs> isn't what they'll do to the price of a can of beer, which is made from aluminum, or a gallon of gasoline, which is extracted, refined, and delivered by an infrastructure of steel. Nor is it the risk of retaliation by China, which has launched a probe into imports of sorghum from the U.S. and is studying whether to cut back on American soybeans.

The biggest problem is the precedent the tariffs set. The U.S. is invoking national security to bust out of the delicate web of trade agreements that it's spent decades carefully spinning. The World Trade Organization is far from perfect, but if countries begin to ignore it and start slapping high tariffs and quotas on one another, global trade growth could shudder to a halt. That would harm everyone.

"National security has been kind of reserved, as it should be, for special circumstances," says Nicole Lamb-Hale, who was assistant secretary of commerce for manufacturing and services in the Obama administration. "If you start using it like any other trade tool, it loses its bite. Other countries will say, 'The United States did it, so we can do it, too,'" says Lamb-Hale, who is a managing director at Kroll Associates, an investigations and security company.

Trump is right that the world is a dangerous place and that a country which lets its defense sector wither by blindly following the rules of free trade could wind up at the mercy of powerful enemies. Allies of the U.S., including France, Germany, and Japan, are increasingly taking national security into account on matters of trade and investment.

The rise of China as an economic and military power is one key factor as countries scramble to guard their national security interests. Among the major economies, China is by far the most nationalistic in terms of flouting international trade rules to gain a strategic advantage. Its Made in China 2025 project <<https://www.bloomberg.com/news/articles/2017-11-21/where-made-in-china-means-flying-cars-and-automated-pharmacies>> aims to acquire state-of-the-art technologies from trading partners as necessary and master the production of them at home.

But laying down worldwide tariffs on steel and aluminum is the wrong way to counter China. The country is only the 11th-biggest exporter of steel to the U.S. and the fourth-biggest aluminum exporter. Trump's tariffs will hurt U.S. allies such as Canada, the top source of foreign steel and aluminum, as much if not more than they will China. It's not clear yet if Trump will be persuaded to exempt some countries from the tariffs, which still have not been formally announced. Not to exempt Canada would be a slap to a reliable ally and would leave U.S. metal buyers in the lurch.

Steel and aluminum are essential to industry, all right, but they're abundantly available from both domestic and foreign sources. What's more, the idea that the U.S. would need to ramp up metal production to replace ships, tanks, and planes destroyed in battle is World War II-style thinking, says Jeff Bialos, a partner in the law firm Eversheds Sutherland in Washington, who was a deputy undersecretary of defense in the Clinton administration. "Now it's qualitative superiority, not quantitative superiority," he says. "We fight wars today with what we have" when the shooting starts.

Want to scare yourself? Read up on the vulnerability of advanced weapons systems to enemy hackers. “Hardware threats exist throughout the global microelectronics supply chain,” the Potomac Institute for Policy Studies said in a report last August. For example, a hostile power could embed malware into the design of an integrated circuit that could be triggered in the event of war. Solid rocket fuel is another vulnerability, says Andrew Hunter, who was chief of staff to former Defense Secretary Ash Carter and is now director of the defense-industrial initiatives group at the Center for Strategic and International Studies in Washington. “The risk tends to be higher in highly specialized technologies where the commercial market is not nearly as robust, therefore the Department of Defense is more vulnerable to disruptions of supply,” he says. Steel and aluminum are not on that list.

To justify the tariffs, Trump is using a blunt instrument, namely Section 232 of the Trade Expansion Act of 1962, which allows a president to act unilaterally if national security is at stake. The WTO can’t stop Trump because its charter includes a rarely used exemption for such cases.

But there’s a risk in using Section 232. Trump’s tariffs could accelerate what has been a gradual trend toward more invocation of national security around the world. “National security is tending to apply to a broader range of contexts,” says Giovanna Cinelli, a partner in the law firm Morgan Lewis in Washington. Europe, in particular, is groping for how to respond to a wave of investment from China; some examples: Chinese billionaire Li Shufu’s accumulation <https://www.bloomberg.com/news/articles/2018-02-27/merkel-fixes-sights-on-china-as-chinese-investors-target-germany> of a \$9 billion stake in Mercedes-Benz parent Daimler AG; the lease of half of the Greek container port at Piraeus to Cosco Shipping. In September, European Commission President Jean-Claude Juncker proposed a European Union-wide system for screening incoming direct investment. The screening would take into account unfair competition, not only national security.

Germany has been taking a closer look at its policies on foreign investors since 2016, when the U.S. blocked the sale of German semiconductor equipment supplier Aixtron to a Chinese company, Grand Chip Investment, on security grounds because it has a U.S. branch. Last year, Australia ordered the compilation of a registry of key assets to provide regulators with more information when deciding whether deals raise national security concerns. The government was caught by surprise when a Chinese investor negotiated directly with the Northern Territory government to capture a 99-year lease for the port of Darwin, which is next to a large contingent of U.S. Marines.

Trump's steel and aluminum tariffs push the envelope for what's considered a national security issue—no surprise considering that his commerce secretary, Wilbur Ross, is a billionaire former steel executive and his trade representative, Robert Lighthizer, represented U.S. Steel Corp. as a lawyer. The Commerce Department recommendation to Trump takes full advantage of expansive language in the 1962 law. It cites “the close relation of the economic welfare of the Nation to our national security” and directs the president to take into account unemployment, decrease in government revenue, and loss of skills or investment resulting from displacement of domestic production by imports.

The problem with Trump's expansive use of Section 232 is that pretty much any negative effect from trade could be interpreted as a threat to national security.

Cinelli, the Morgan Lewis attorney, says she isn't particularly worried. “I don't see the implosion or the demise of the WTO at any point soon.”

But the tariffs are already causing the U.S. to lose the moral high ground on trade. Daniel Rosenthal, co-chairman of Kroll's advisory practice on the Committee on Foreign Investment in the U.S. (CFIUS), says the U.S. has been hammering China for years for using national security as a pretext for blocking imports and controlling foreign investment. The U.S. loses the high ground if it starts doing the same thing, Rosenthal says: “We significantly degrade our argument because now we're doing what they're doing.”

*—With Enda Curran in Hong Kong and Andrew Mayeda in Washington*