

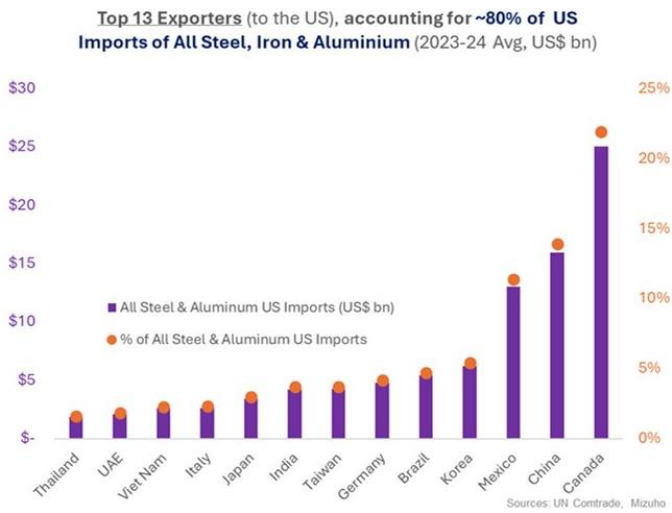
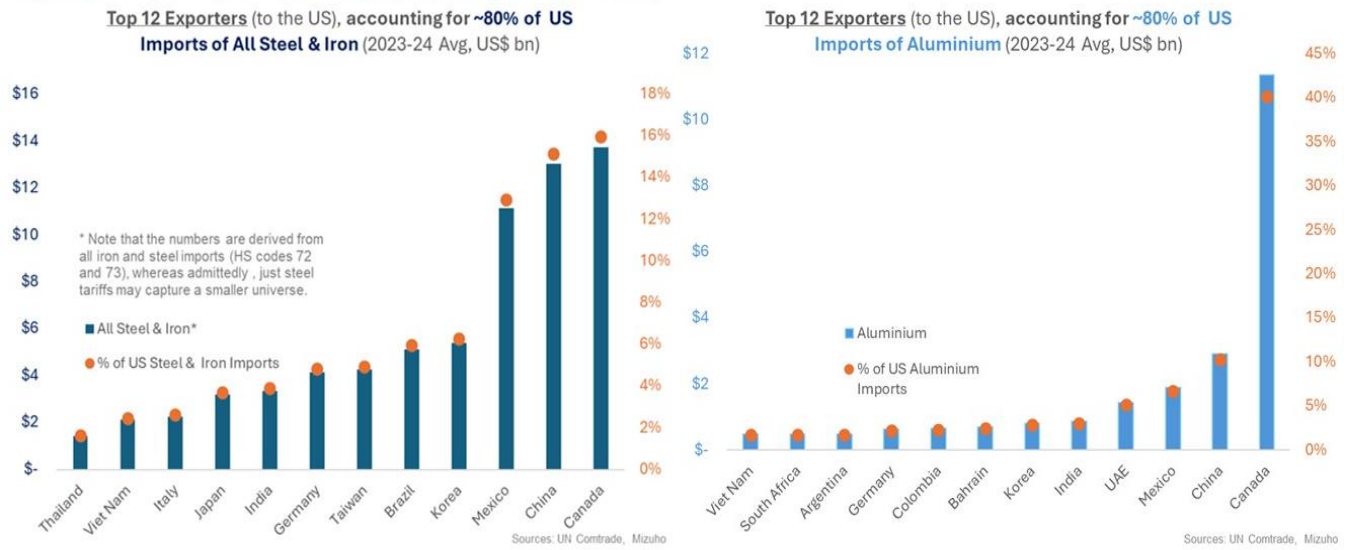
Steel & Aluminum Tariffs Forewarn of Greater Risks Ahead

“There’s always a bigger fish.” – Qui-Gon Jinn, *The Phantom Menace*

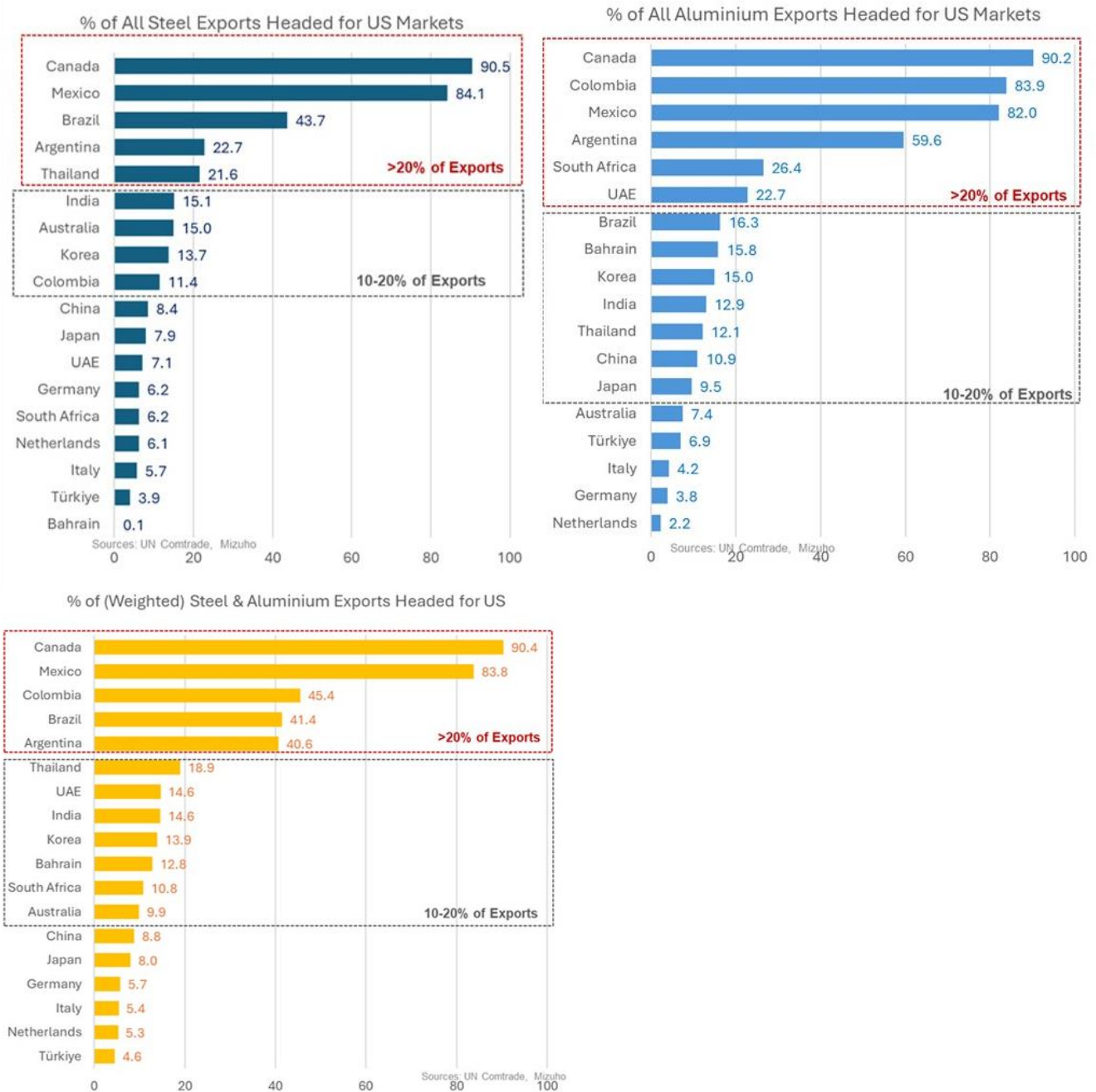
In a Nutshell:

- **Steel and Aluminum tariffs will hurt Canada and South American producers the worst.**
- **Whereas China is spared the worst** by virtue of its relative hedge to US reliance.
- Crucially, **China’s overwhelming spare capacity** (and attendant pricing advantage) further **accentuate China’s relative buffer** from the steel and aluminum tariffs.
- Arguably, the **tariffs may not boost US production advantages**. In fact, it **might backfire as unwelcome inflation** and a **setback to competitiveness** from higher steel/aluminum prices.
- **Nonetheless, the near-term risks from tariffs will be borne elsewhere** (led by [Canada](#), [Mexico](#), [Colombia](#), [Argentina](#), and [Brazil](#)).
- What’s more, **China and Asia skirting the brunt of tariff pain is an exception** rather than the rule as *Trump 2.0 tariffs roll out incrementally*.

Charts 1a, 1b & 1c: Top Exporters to US for Steel & Aluminium (by US\$ value & % Share of US imports)



Charts 2a, 2b & 2c: Share of Steel & Aluminum Exports Headed for US Market (% of Total Steel & Aluminum Exports)



- Trump’s **25% tariff on all Steel and Aluminum** imports will have **sweeping impact on the key exporters of these metals to the US**.
- **But** the **realized impact across the various exporters** may be **far more differentiated** than first blush vulnerabilities suggest.
- Point being, the **realized, relative pain can differ substantially** from **exports quantum and share of US imports** (Charts 1a, 1b & 1c) that **suggest Canada, China, Mexico followed by Korea, Brazil, Germany, Taiwan, India and Japan are hardest hit**.
- For **one**, because of **possible exemptions** (in different shapes and forms), as was the case in Trump 1.0 tariffs on key partners (Australia, Argentina, Brazil, Mexico, Korea, etc.) .

- Admittedly, there is a **case to take Trump at his word on “without exceptions or exemptions”**. In which case, the hard exposure to US markets and Trump 2.0 tariffs apply.
- Yet, and **crucially** once US market reliance is factored in is **another reason** the **actual impact of these steel and aluminum tariffs will be vastly different** is that **adjusting for varying reliance on US as the exports market**.
- In which case, **Canada, Mexico, Colombia, Argentina, and Brazil** (Charts 2a, 2b & 2c) **stick out for extreme vulnerabilities** (reliance on US market spanning 40-90% across steel and aluminum).
- With the **second order** (10-20% reliance) **vulnerabilities spanning across Thailand, UAE, India, Korea, Bahrain, South Africa and Australia**.
- The upshot is that **Canada and South American producers will bear the brunt** of US steel and aluminum tariffs, **if** indeed it is **applied as indiscriminately as Trump suggests**.
- Notably, **China skirts the worst of the impact** from steel and aluminum imports.
- In fact, **China’s relative resilience is accentuated further by spill-over negative effects of US tariffs** (as exporters try to offload elsewhere) is considered.
- **Having the most dominant spare capacity on a global scale**, and the **attendant pricing and production advantages**, **Chinese producers are in prime position to mitigate adverse demand shocks**.
- Whereas **benefits to the US** is **unproven at best, self-defeating at worst**.
- Specifically, as **higher US steel aluminum prices**, **given US production cannot meet import substitution adequately, inadvertently re-ignite inflation** and **compromise competitiveness** of key industries (such as autos).
- Fact is, **Trump 1.0 tariffs revealed no signs of shifting production** (of steel and aluminum) **to the US**, questioning the efficacy of tariffs.
- What’s more, **even if “it’s different this time”, interim pain for the US appears to be unavoidable**. Particularly given that **China’s overwhelming spare capacity can exacerbate pain**.
- Nonetheless, the **tariff pain will by and large** (at least) initially be spread across the key producers/exporters to the US (Canada, Mexico, Colombia, Argentina, and Brazil).
- Crucially, the bigger picture is that it is **premature for China, and in particular, the rest of Asia to find solace** from not drawing the shortest straw on steel and aluminum tariffs.
- Afterall, **Trump was not intending to target China** (and by extension the rest of Asia) by means of steel and aluminum tariffs in the first place.
- Above all, the **wider tariff gambit is aimed at China** (and inevitably the rest of Asia caught up via supply-chain impulses).
- So, the relative buffer for China and Asia in this instance of (steel and aluminum) tariffs appears to be an exception to Trump 2.0 tariffs.
- The upshot is that with the **first chapter of Trump 2.0 tariffs just having begun, wider (and greater pipeline) trade risks for the rest of Asia, whether via China or directly, are not yet averted**.

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