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Overview: In this issue of showCASE, our analyst discusses the developments around what looks like a potential trade war between the United States and China, as well as many of the US trade partners. What is the purpose of the new import tariffs and what really is at stake with their implementation?

Steel and aluminum trade war: bleak perspectives for ironing out

By: Sara Skejo, CASE Analyst

In a controversial move, seen by many as a declaration of a trade war, on March 8th United States President Donald Trump signed a pair of proclamations setting up new import tariffs on steel and aluminum. The new tariffs will amount to 25% on steel and 10% on aluminum, ostensibly to counter cheap imports and protect domestic manufacturers.

Mr. Trump's authority to impose the tariffs is based on a provision that allows the president to restrict trade because of national security interest under Section 232 of the Trade Expansion Act of 1962. The argument behind the new import tariffs is that the current ones weaken internal economy, thus posing a threat to national security. The primary source of this threat, according to Mr. Trump, is China.

U.S. President Donald Trump is after signing a proclamation to establish tariffs on imports of steel and aluminum at the White House in Washington, U.S., March 8, 2018. REUTERS/Leah Millis

The Trump administration has long criticized China for flooding the market with cheap commodities. However, although the country is indeed the world's largest steel exporter, it is only the 11th-largest import partner of the US, accounting for 2% of total imports of steel. In 2016, the US implemented trade taxes on different types of imported steel, causing Chinese exports to the US to drop by two-thirds. In the first nine months of 2017, the US imported 26.9 million tons of steel, an increase from 22.5 million tons in 2016. Canada accounted for the largest share of imports (16%), followed by Brazil (13%), South Korea (10%), Mexico (9%), and Russia (9%). Nevertheless, the American steel industry has argued that China has a backdoor to the US markets through transshipment, whereby third-party countries buy Chinese steel and modify it before exporting to the United States. As no legitimate data on transshipment is available, though, the actual scale of this practice is difficult to determine.

The situation looks quite different in case of aluminum. In 2017, Chinese aluminum exports went up by 4.5% from 2016 and grew by more than 25% in the first two months of 2018. The United States accounts for 14% of China's total aluminum exports. Between January and October 2017, the US produced only 840,000 tons of aluminum and imported more than 5.7 million tons; out of those, 550,000 tones came from China, a number dwarfed only by imports from Canada, Russia, and the United Arab Emirates.

China's Minister of Commerce, Zhong Shan, said that China did not wish to fight a trade war, but it would take proper measures to defend its rights and interests. If China does retaliate, it could focus on consumer electronics or semiconductors that would affect Apple and US chipmakers like Qualcomm and Intel. The country is also a big importer of commodity crops like soybean, and farmers in the US have already felt constrained by a decline in prices.

Some of US trading partners are expected to be excluded from the new tariffs. However, only Canada and Mexico would be initially granted an exemption, an arrangement that could be extended based on the progress in the North American Free Trade Agreement (NAFTA) talks. The European Trade Commissioner Cecilia Malmström said that the European Union will also seek to be excluded from proposed measures, or it will impose new tariffs on products including orange juice, bourbon, denim, cranberries, peanut butter, and motorcycles. The EU has also said it would challenge the legality of the US metal tariffs at the World Trade Organization (WTO).

Following this announcement, Mr. Trump ramped up his rhetoric and threatened to respond with a new tax on cars, should the EU retaliate to his proposed steel taxes and put into effect new trade barriers. The US vehicle market is in an upturn mode, and it is also one of the world's most important sales markets. Import taxes on cars would be especially problematic for Germany, Europe's number one automotive market both in terms of production and sales, which accounts for around 30% of all passenger cars manufactured and 20% of all new registrations in the EU. German Chancellor Angela Merkel called her fellow European leaders and Mr. Trump for negotiation amid fears of a tit-for-tat trade war that would cause prices to rise and damage economic growth. According to the German Association of the Automotive Industry (VDA), the German vehicle-makers exported 494,000 cars in the value of EUR 19.4 billion and sold 1.35 million light vehicles in the United States last year. BMW, Daimler and Volkswagen operate some of their biggest factories in the southern, Republican-leaning states. German manufactures employ 36,500 people in the US and German automotive suppliers about 80,000 more.

With the announcement of the new duties, the US has rolled out the most sweeping protectionist tariffs in decades, all in the name of national security. America's free trade agreements, such as the NAFTA, the US-Korea Free Trade Agreement and even the US' membership in WTO are being questioned. The looming trade war could hurt the economy and financial markets; following the announcement of new tariffs, Wall Street has been on the edge as the Dow Jones Industrial dropped 420 points, while both Nasdaq and S&P 500 declined by 1.3%. Shares of Boeing fell by 3%, General Motors by 4% and Ford by 3%. But, perhaps more importantly, it also hurt the already strained diplomatic relations between the US and many of its allies. And that could prove a security threat much more serious than low trade tariffs on aluminum and steel.

This week: According to data released by the Central Statistical Office (GUS), in January 2018 Poland had a foreign trade deficit of PLN 2 billion, down from PLN 1.9 billion surplus in January last year. Exports in January declined by 0.4 percent, while imports grew by 5.3 percent, y/y.

GDP (Q4 2017)

4.3% y/y (est.)

Down from 5.2 % in Q3 2017

Inflation (Feb 2018)

1.4% y/y

Down from 1.9% in Jan 2018

Unemployment (Jan 2018)

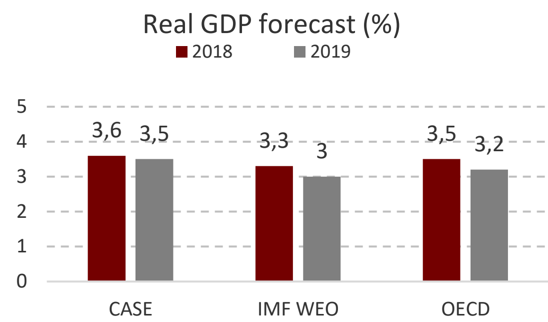
6.5%

Down from 6.6% in Dec 2017

NBP Base rate

1.5%

From 2% in Mar 2015



This week: Moscow is working on retaliatory measures against the United Kingdom for London's decision to expel 23 Russian diplomats over the poisoning of the former Russian double agent Sergei Skripal. Theresa May's package of diplomatic and economic measures against Russia is unlikely to have any real impact on Russia's economic performance, as the UK sanctions will go no further than current European Union ones, which include travel restrictions and asset freezes against 150 people and 38 companies.

GDP (Q3 2017)

1.8% y/y

Down from 2.5% in Q2 2017

Inflation (January 2018)

2.2% y/y

Down from 2.5% in Dec 2017

Unemployment (Jan 2018)

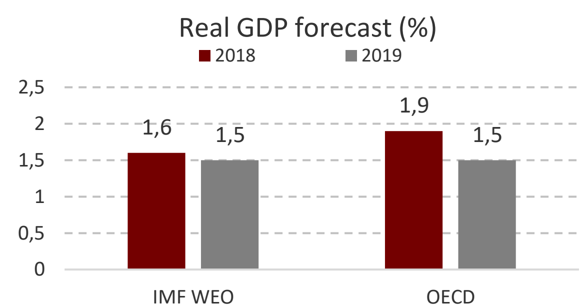
5.2%

Up from 5.1% in Nov 2017

CBR Base rate

7.5 %

From 7.75% in Jan 2018



This week: The German economy is performing strongly as Angela Merkel formally begins her fourth term as chancellor. The German Institute for Economic Research (DIW Berlin) revised upwards its 2018 growth forecast for Europe's largest economy up to 2.4%, citing measures to reduce the financial burden on households planned by the new CDU/CSU-SPD coalition government. DIW Berlin's growth forecast is now in line with the government's prediction. DIW also raised its 2019 growth forecast to 1.9%.

GDP (Q4 2017)

2.9% y/y

Up from 2.8% in Q3 2017

Inflation (Feb 2018)

1.2% y/y (est.)

Down from 1.4% in Jan 2017

Unemployment (Jan 2018)

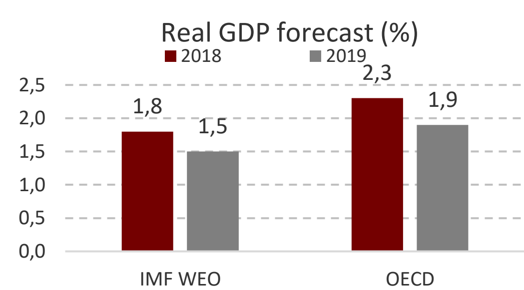
3.6%

Up from 3.5% in Dec 2017

ECB Deposit rate

-0.4%

From -0.3% in Dec 2015



This week: Ukraine and the Netherlands signed an Amending Protocol to the Double Tax Treaty. The Protocol guaranteed discontinuation of the withholding tax (WHT) exemption for dividends; an increase of the reduced WHT rate from 2% to 5% for interest related to loans provided by financial institutions and the sale of equipment and machinery on credit; and replacement of royalties related to certain items of intellectual property with a 5% WHT rate.

GDP (Q4 2017)

1.8% y/y

Down from 2.1% in Q3

Inflation (Feb 2018)

14.0% y/y

Down from 14.1% in Jan

Unemployment (Q3 2017)

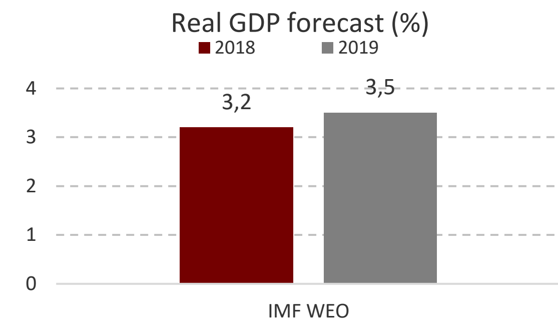
8.9%

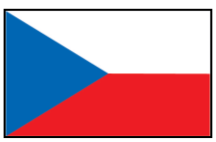
Down from 9.1% in Q2 2017

NBU Base rate

17.0%

From 16% in Jan 2018





This week: Following a meeting with Uber representatives, Prime Minister Andrej Babiš said that the conflict between the company and Czech taxi operators was about to end as Uber had agreed to become a licensed service, with drivers' earnings taxed in the Czech Republic. A relevant memorandum should be signed by the end of the month, and an agreement on revenue reporting with the Financial Administration by the end of April.

GDP (Q4 2017)

5.2% y/y

Up from 5.1% in Q3 2017

Inflation (Feb 2018)

1.8% y/y

Down from 2.2% in Jan 2017

Unemployment (Q4 2017)

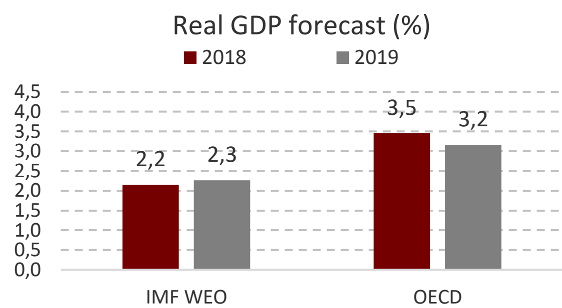
2.4% (est.)

Down from 2.8% in Q3

CNB Base rate

0.75%

From 0.5% (2nd Jan 2018)



This Week: According to the data released by the Hungarian Central Statistical Office (KSH) on March 14, industrial output in Hungary in January 2018 increased by 6.9% y/y. Although the growth was registered in every region of the country, regional differences were significant (e.g. 14.3% in Southern Transdanubia compared to 3% in the Northern Great Plain). In the same period, the number of employed persons increased by 3% and the labor productivity by 3.7% y/y (for industrial enterprises with more than 5 employees).

GDP (Q4 2017)

4.4% y/y (est.)

Up from 3.9% in Q3

Inflation (Feb 2018)

1.9% y/y

Down from 2.1% in Jan 2018

Unemployment (Q4 2017)

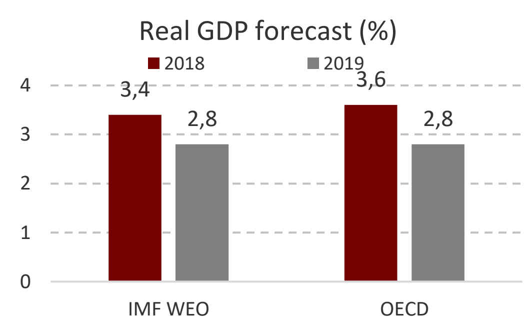
3.8%

Down from 4.1% in Q3

MNB Base rate

0.9%

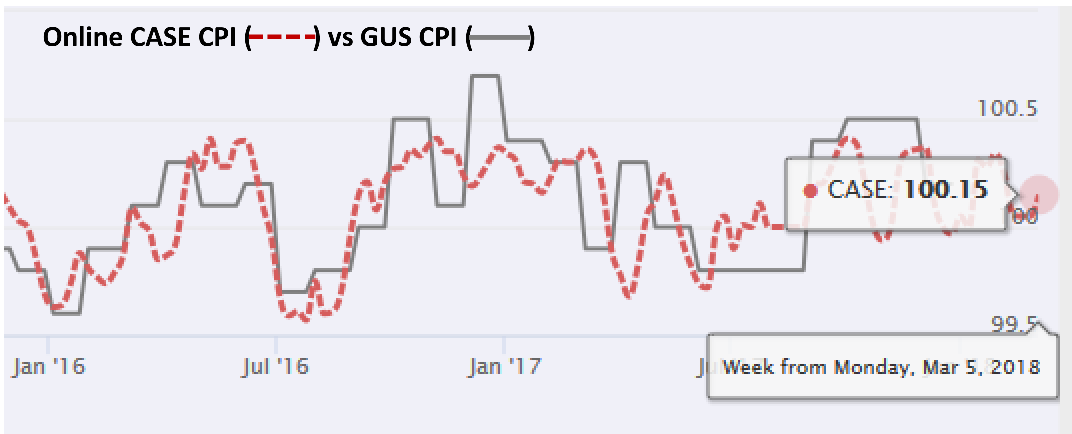
From 1.05% in May 2016



The weekly online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly.

Our weekly online CASE CPI



Monthly CASE forecasts for the Polish economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, and the CPI.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2018	3.6	3.6	4.1	3.7	2.5
2019	3.5	3.6	3.3	3.8	2.3
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2018	4.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

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