Steel Import Restrictions Harm U.S. National Security

Comments of

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To the

Section 232 National Security Investigation of Imports of Steel
Department of Commerce
May 31, 2017

It is universally agreed that much equipment used by the U.S. military requires steel. The key question is how best to obtain the specific types of steel needed for various national-security applications.

Most steel used in military applications comes from domestic suppliers, or from countries with which the United States has amicable relations. Little or no essential steel comes from countries that would be considered adversaries. Keeping the U.S. market open to steel imports will assure that the military will have access to foreign as well as domestic steel products needed to maintain national security.

If some specific qualities of steel are deemed not to be freely available from the global market, the U.S. military could ensure that U.S. producers remain in business by establishing long-term contracts with them.

Three points are particularly important:

First, the 232 investigation must be understood in the context of the existing U.S. steel marketplace. Roughly 200 antidumping or countervailing duty measures already are in place on steel products from a variety of countries. Steel currently is one of the most protected sectors in the U.S. economy.

Second, a country that imposes import restrictions always reduces its own economic welfare. Economists have understood since the work of David Ricardo that it is unwise to try to be self-sufficient when others are able to provide products at lower costs. Import restrictions intended to increase national self-sufficiency will cause resources to be used inefficiently, thus lowering national economic welfare. In other words, consumers are hurt more than protected industries are helped. With the 232 process, the administration may hope to inflict pain on other countries by restricting imports into the United States. We can't be sure whether/how much U.S. import restrictions will hurt other countries, but we can be sure the restrictions will hurt America.

Third, any further import restrictions would do far more harm to steel-using manufacturers than any benefit that could be provided to steel mills. That is simply due to the raw numbers. Steel mills employ just 140,000 workers. Downstream manufacturers that use steel as an input employ 6.5 million, 46 times more. Steel mills account for a fairly small slice of the overall U.S. economy. The $36 billion in economic value added by steel mills in 2015 equals only 0.2 percent of U.S. Gross Domestic Product (GDP). By contrast, the economic value added by firms that use steel as an input was $1.04 trillion – 29 times more – or 5.8 percent of GDP.

Any government action to drive up steel prices by restricting imports will hurt steel-consuming manufacturers by artificially increasing their steel costs and reducing their competitiveness relative to companies overseas. It's clear that the broad public interest would be harmed by additional steel import restrictions. A decline in U.S. economic welfare is not something the administration ought to pursue. It's very difficult to have a stronger national defense when the economy is getting weaker.

Maintaining a vibrant and growing economy is essential to U.S. national security. That is why restricting steel imports creates a genuine threat to economic growth and prosperity.

The DOC should recommend removal of all U.S. import restrictions on steel. In order to help the domestic steel industry adjust to an open market, consideration should be given to providing economic adjustment assistance to steel companies and their workers.

Below is the E-mail sent to DOC on May 17, 2017, in which I requested to testify at the Section 232 steel hearing on May 24, 2017. This request subsequently was rejected.

Dear Mr. Botwin:

I am Daniel Pearson, senior fellow in the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies. Formerly I served as chairman and commissioner of the U.S. International Trade Commission. In that capacity, I voted on several hundred trade remedy measures pertaining to steel and other ferrous products. Prior to that I worked for Cargill, Incorporated, at a time when its North Star Steel subsidiary produced 4 million tons of steel in the United States.

I believe I am a proper representative of a broad class of economists and policy analysts who believe that open and competitive markets for steel and other products would enhance the economic welfare of the United States. I was the only speaker advocating elimination of U.S. import restrictions on steel at the joint DOC/USTR hearing on global steel overcapacity held on April 12-13, 2016. A paper based on that testimony is available at this link: https://www.cato.org/publications/free-trade-bulletin/global-steel-overcapacity-trade-remedy-cure-worse-disease.

In addition, I have written op-eds dealing with steel issues, two of which can be found at:

https://www.cato.org/publications/commentary/can-wilbur-ross-engineer-turnaround-commerce

https://www.cato.org/publications/commentary/us-china-are-both-wrong-steel.

If it would be helpful, feel free to include those materials in the record of this 232 investigation. My purpose in providing them, though, is to establish my credentials as a qualified presenter for the upcoming hearing.

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A summary of my intended presentation is attached.

Sincerely,

Daniel Pearson

HERBERT A. STIEFEL CENTER FOR TRADE POLICY STUDIES

Free Trade Bulletin

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Global Steel Overcapacity: Trade Remedy "Cure" Is Worse than the "Disease"

by Daniel R. Pearson

Summary

Antidumping and countervailing duty (AD/CVD) measures are unable to fix the low-price problem afflicting U.S. steel producers because they amount to no more than a band-aid that can't heal the wound. Worse, such trade remedy measures do great harm to manufacturing companies by making steel in the United States higher in price than in most of the rest of the world. This tends to make downstream manufacturers less competitive, thus encouraging imports of steel-containing products from other countries.

A better approach would be to take advantage of an underlying economic reality: because the U.S. steel-consuming sector is so much more economically significant than the steel-producing sector, low-priced steel imports provide a substantial net benefit to the U.S. economy. China's policies encourage the export of steel at artificially low prices, which has the effect of transferring wealth from China to the United States. The United States should change the dynamic of the debate by encouraging China to continue transferring wealth by selling all the low-priced steel it possibly can in this country. That approach is likely to get the attention of Chinese policymakers and hasten the downsizing and restructuring that is so badly needed in that country's steel sector.

In addition, U.S. statutes should be reformed to specify that AD/CVD duties would enter into effect only when economic analysis indicates that they would improve economic welfare in the United States. Yes, low-priced steel imports may be "unfair" to U.S. steel producers. But the United States should avoid responding to this unfairness with policies that are even more unfair because they impose much larger costs on the steel-consuming sector than any benefits that might accrue to steel producers.

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China's Steel Overcapacity Can Benefit the United States

China's "socialist market economy" has been driven far too much by socialist planning and not enough by the actual marketplace. Decisions at various levels of government within China have encouraged undisciplined investments in steel capacity, which have led to a large gap between China's ability to produce steel and the demand for it. Because much of the production increase has been generated by government policies, it is clear that China's steel exports aren't really "fair." However, a lot of things in life aren't fair—it's just necessary to make the best of them.

So the question of interest to policymakers should be: What policy response would allow the United States to make the best of those unfair circumstances, preferably turning them to America's advantage?

It is helpful to start by reviewing some realities of the political economy of China's steel market. Many Chinese steel mills never would have been built at all if those investors had been subject to the market pressures of a fully open and competitive economy. Earning a positive return on invested capital has not been an important objective for mills that are owned or heavily influenced by governments. As a consequence, capacity has been added for which there is no effective demand, either in China or overseas. Estimates of overcapacity worldwide (most of which is in China) range in excess of 600 million metric tons,[1] equivalent to more than a third of annual global steel output.[2] (See Figure 1 and Table 1.) Some of that capacity may close in the coming years, perhaps without ever having been operated profitably.

In the near term, however, China appears to be dealing with its unwise steel investments largely by making a second unwise decision—that is, operating many mills at a loss instead of just shutting them down. This is bad for China because it uses resources inefficiently. It also creates political complications for other countries, including the United States. However, the economics of the situation can

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Table 1
Largest Steel Producing Countries, Million Metric Tons

Rank	Country	2015	2014	% Change
1	China	803.8	822.8	-2.3
2	Japan	105.2	110.7	-5.0
3	India	89.6	87.3	2.6
4	U.S.	78.9	88.2	-10.5
5	Russia	71.1	71.5	-0.6
6	South Korea	59.7	71.5	-16.5
7	Germany	42.7	42.9	-0.5
8	Brazil	33.2	33.9	-2.1
9	Turkey	31.5	34.0	-7.4
10	Ukraine	22.9	27.2	-15.8
11	Italy	22.0	23.7	-7.2
12	Taiwan, China	21.5	23.2	-7.3
13	Mexico	18.3	19.0	-3.7
14	Iran	16.1	16.3	-1.2
15	France	15.0	16.1	-6.8
16	Spain	14.9	14.2	4.9
17	Canada	12.5	12.7	-1.6
18	UK	10.9	12.1	-9.9
19	Poland	9.1	8.6	5.8
20	Austria	7.7	7.9	-2.5

Source: World Steel Association.

work to America's benefit. Since China is selling steel for less than it would be worth in an economy guided solely by market forces, U.S. steel consumers are getting a bargain. China's decision to run its steel mills at negative rates of return means, in essence, that China is helping to increase the competitiveness of U.S. manufacturers that use steel as an input. In terms of the underlying economics, China takes the losses and the United States reaps the gains. What's not to like about those circumstances?

Trade Remedies Make the Situation Worse

Yes, domestic U.S. steel producers are exposed to unfairly low-priced steel and are understandably unhappy. Their traditional response has been to seek relief from troublesome imports, primarily by filing antidumping and countervailing duty (AD/CVD) petitions. There are two reasons that this approach does not serve the best overall interests of the United States.

One is that today's steel market for commodity products is so far out of balance that trade remedy measures simply can't bring the U.S. industry back to profitability. The global supply of commodity steel products is so large that prices are low worldwide. No matter how many trade remedy band-aids are placed on that wound, they won't raise U.S. prices sufficiently to stop the financial bleeding.

The other shortcoming of AD/CVD orders is that—even if they could provide some help to U.S. steel manufacturers—they would do great harm to downstream U.S. firms that use steel as an input. True, U.S. steel producers employ tens of thousands of people. But steel production adds far less value to the U.S. economy and employs far fewer people than do downstream manufacturers.

Data from the Bureau of Economic Analysis (BEA) at the Department of Commerce indicate that value added by "primary metal manufacturing" amounted to $59.7 billion in 2014.[3] (Note: Primary metal manufacturing [NAICS 331] includes nonferrous metals, such as copper, aluminum, magnesium, lead, tin, silver, and gold, so is much broader than the steel industry.) Downstream manufacturers that utilize steel as an input generate value added of $990 billion, more than 16 times larger than primary metal industries. The disparity in employment also is more than 16 times greater. Primary metal manufacturing employed 399,000 people in 2014.[4] Downstream manufacturers employed 6.5 million. (Employment by U.S. steel producers is somewhere in the neighborhood of 100,000.)

The point is not that steel production is a small and insignificant industry, because clearly it is not. Rather, the point is that the problems of the steel industry need to be kept in perspective. It would be a poor policy choice to attempt to protect steel producers in ways that do much greater harm to steel users.

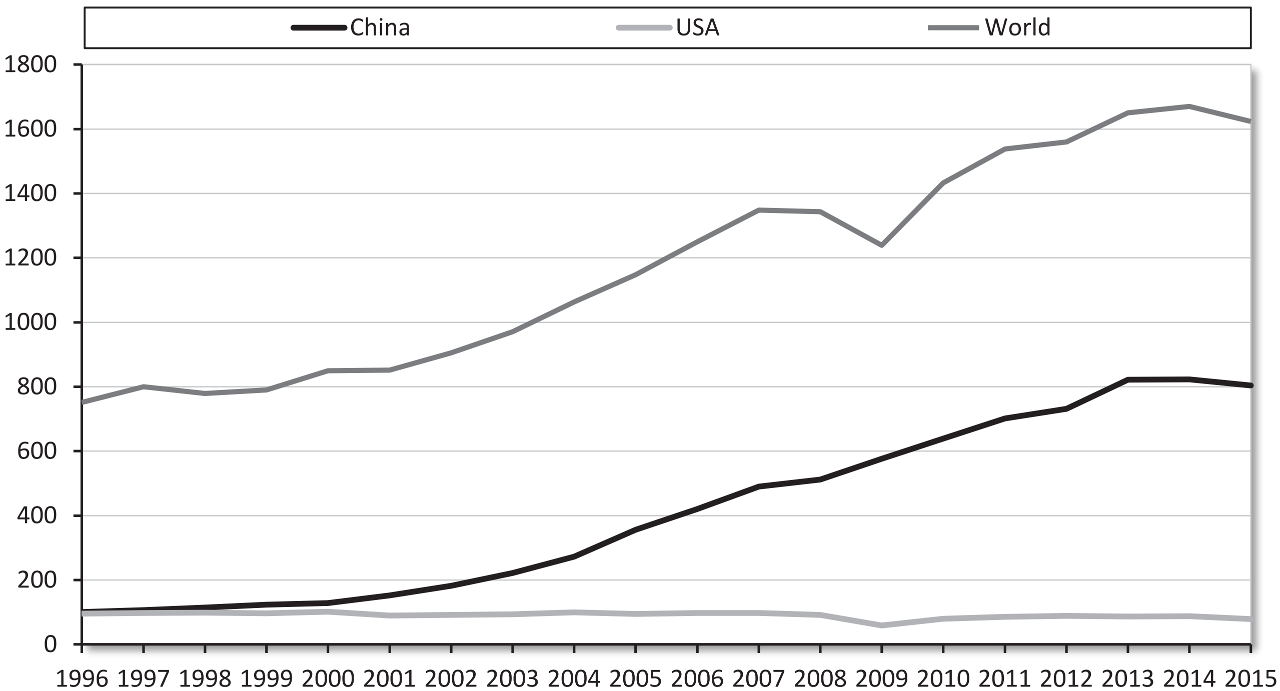
One of the sad realities is that AD/CVD orders can make the United States a relatively high-priced island in a world awash with lower-priced steel. Not having access to competitively priced inputs can lead quickly to sales losses for companies that manufacture goods containing steel. Overseas firms that benefit from lower costs will be able to export products to the United States and undersell U.S. manufacturers. So imposing trade remedies is a great way to reduce the economic welfare of the United States, thus making this country poorer.

One example might be Carrier, the company that recently announced it would shift manufacturing air conditioners from two plants in Indiana to Monterrey, Mexico. This decision, which will lead to the loss of 2100 jobs, has inspired commentary in the presidential campaign. The company's official statement does not attribute the change specifically to higher U.S. prices for key inputs covered by AD/CVD orders. However, the statement does say, "This move is intended to address . . . ongoing cost and pricing pressures."[5] It seems likely that some of those cost pressures relate to U.S. trade remedies, 19 of which restrict imports of various steel products from China. (Not all of those steel products would be used in the manufacture of air conditioners.) Other AD/CVD orders apply to imports of copper tubing, which is an important component of air conditioning systems, as well as aluminum extrusions. If the United States wishes to create a more favorable business climate for manufacturers, a good start would be to revoke AD/CVD orders that raise the costs of their components. These are costs that Carrier largely can avoid by moving operations to Mexico.[6]

A Better Approach

What should be done instead of using trade remedies? U.S. policymakers should take advantage of fundamen-

Figure 1
Crude Steel Production, 1996–2015, Million Metric Tons



Source: World Steel Association.

tal economics. China's decision to export steel for less than it is worth has the effect of transferring wealth from China to the United States. As a practical matter, the best way to encourage China to downsize and restructure its industry would be to reframe the debate by communicating the following message to the Chinese government:

> Thank you for transferring so much wealth from China to the United States by selling low-priced steel! Please continue doing it! Is China willing to sign ten-year contracts guaranteeing that wealth transfers will continue?

By radically changing the terms of the discussion, this approach has a decent prospect for getting the Chinese quickly to rethink what they have been doing. The current U.S. approach is to complain to them about how much their exports are hurting American steel producers. Instead, that argument should be turned on its head by thanking them for helping to strengthen the competitiveness of the much larger U.S. steel-consuming sector.

Adopting that strategy is not only the right thing to do based on economics, it also would tend to get the attention of Chinese policymakers in a genuinely constructive way. China's senior leaders may find it challenging to explain to their people why they are continuing to allow below-cost steel to be sent overseas to the great benefit of the United States and other countries. Temporarily maintaining employment in Chinese steel mills may be nice, but at the cost of subsidizing undeserving Americans? That's probably not a winning political argument, even in China.

Implications for U.S. Steel Producers

Would removing all AD/CVD restrictions against steel imports sound the death knell for the U.S. steel industry? Fortunately, no. Steel producers understand that their markets tend to be cyclical. When prices are at cyclical lows, many U.S. steel companies experience financial losses. This is not a new phenomenon. Experience in previous periods of low prices indicates that capacity utilization rates for the industry as a whole tend to decline. Some mills producing commodity products may close for a few months, perhaps longer. There may be restructuring or consolidation among firms. These changes—especially in combination with industry downsizing and restructuring in China and other countries—would lead relatively promptly to restoring a balance between steel supply and demand that would allow profitable operation of U.S. mills.

It likely would be preferable to both employees and stockholders of steel companies to get past the bottom of the cycle as quickly as possible. There would be little joy from a prolonged downturn that could be expected in response to an ongoing series of AD/CVD orders imposed in a vain attempt to protect the U.S. steel industry from adverse market circumstances. Continuing on the traditional trade-remedy path likely would encourage Chinese leaders to resist reforms. Why should they suffer political costs to change policies in order to make the United States happy? By shifting the dynamic and encouraging China to continue exporting a large quantity of low-priced steel, the United States has a far better chance to get China to make badly needed adjustments in its industrial policies.

It is important to understand that the nature of the U.S. marketplace also provides some degree of protection to domestic steel companies, especially those producing high-quality and specialty steels. High-end items are more difficult to produce and are higher in price than commodity grades. The trend in recent decades has been for the U.S. steel industry to rely less on the sale of commodity products, instead moving toward manufacture of higher-value grades of steel. Specialty steels are required by customers for certain well-defined uses. Such customers will only use steel that has passed qualification tests in advance, so tend to have long-term relationships with suppliers. Manufacturers with exacting requirements for their steel inputs often are reluctant to attempt to qualify producers that previously have not been business partners, especially if those potential suppliers are located far away in other countries. Manufacturers find it somewhat comforting to have major suppliers located relatively nearby so that transportation logistics are not excessively complicated. In other words, realities of producer-customer relationships provide the U.S. steel industry with partial insulation from overseas competition.

Reform Trade Remedy Statutes

U.S. steel producers may not be comfortable with an open-market approach. The challenge to them is to outline an alternative policy that would do a better job of improving U.S. economic welfare. It is doubtful they can do so. Certainly it would be difficult for the U.S. steel industry to make a compelling argument that their economic interests are somehow more important than those of companies that require steel as an input for their value-added manufacturing processes.

The optimal policy response would be to reform U.S. trade remedy statutes by adding a new requirement: AD/CVD duties only should be imposed if economic analysis indicates that doing so would increase economic welfare in this country. This would be an elaboration of the "public interest" test applied by some other nations as they consider whether to impose AD/CVD measures.

Fortunately, adding such a requirement to U.S. law would not pose a substantial administrative burden. Economists on the staff of the U.S. International Trade Commission already have access to relevant data in the injury phase of AD/CVD investigations. They also have the necessary analytic tools and experience to provide this analysis. The statute should be changed to instruct ITC commissioners to consider the broad economic welfare effects of proposed AD/CVD duties and to vote in the affirmative only when those duties will redound to the net benefit of the United States.

People on both sides of this issue should be able to agree that the U.S. government should avoid policy responses that do more harm to the economy than any harm that could be done by unfairly priced imports. It is important to ensure that the policy "cure" isn't worse than the "disease" of low-priced steel. The goal should be to pursue policies that serve the best overall interests of the United States.

Notes

1. "Tata Steel: No, Thank You," *The Economist*, April 2, 2016, www.economist.com/node/21695872/.
2. "Monthly Crude Steel Production," World Steel Association, January 25, 2016, https://www.worldsteel.org/dms/internetDocumentList/steel-stats/2015/Crude-steel-production-Jan-Dec-2015-vs-2014_/document/Crude%20steel%20production%20Jan-Dec%202015%20vs%202014.pdf.
3. "Value Added by Industry," Bureau of Economic Analysis, U.S. Department of Commerce, November 5, 2015, http://www.bea.gov/iTable/print.cfm?fid=928DEDAE7553EBE540634807A5540C6A1C7978C144702974BD43F0538F257772B50F6E8A941AE6A12DCD641CC0E5EFF419242D22DB27361F753F66E82FDBDA46.
4. "Full-Time and Part-Time Employees by Industry," Bureau of Economic Analysis, U.S. Department of Commerce, August 6, 2015, http://www.bea.gov/iTable/print.cfm?fid=718A9A5150C52C20743F8882F711BA94B63DFA6A263656FABBCE94FA5A8705C8CF5AFBD927E63BB81584B114DE4F013CDD922DCFADAA9BE5CF8972E98CFDA979. (Steel consuming manufacturers are: fabricated metal products; machinery; computer and electronic products; electrical equipment, appliances and components; motor vehicles, bodies and trailers, and parts; other transportation equipment; furniture and related products; and miscellaneous manufacturing.)
5. Carrier, "Carrier to Relocate Indianapolis Manufacturing Operations," news release, March 2, 2016, https://www.carrier.com/carrier/en/us/news/statements/.
6. Daniel Ikenson, "Economic Self-Flagellation: How U.S. Antidumping Policy Subverts the National Export Initiative," Cato Institute, May 31, 2011, http://www.cato.org/publications/trade-policy-analysis/economic-selfflagellation-how-us-antidumping-policy-subverts-national-export-initiative. (Pages 14–17 provide examples of damage done by antidumping measures to U.S. firms using magnesium and hot-rolled carbon steel.)

COMMENTARY

Can Wilbur Ross Engineer a Turnaround at Commerce?

By Daniel R. Pearson

This article appeared on The Hill (Online) *on January 18, 2017.*

Wilbur Ross has accomplished impressive business turnarounds during his career. His efforts in the steel, textile and automotive parts industries demonstrate a genuine talent for reorganizing failing operations and putting them back onto their feet. When he becomes Secretary of Commerce, Ross may face his greatest turnaround challenge ever.

The Department of Commerce's mission is, among other things, "to promote job creation, economic growth, sustainable development, and improved standards of living for Americans." Under the outgoing administration, Commerce has actively undermined these goals. It has overseen a massive expansion in use of anti-dumping and countervailing duty measures that artificially raise input costs and reduce the global competitiveness of U.S. manufacturers.

If Ross is serious about accomplishing his mission, he needs to find a way to reverse course.

Steel provides the best example. China's expansionary steel policies have made it the world's largest producer and exporter, leading to depressed global prices. In response, U.S. steel mills have sought more than 160 anti-dumping and countervailing duty measures to restrict imports of a wide variety of steel products.

Those extra import duties are intended to offset unfair trade, and there's little doubt that Chinese exports are unfair. Thus, it makes sense to impose anti-dumping and countervailing duties on imports of steel, right?

Not so fast. American steel producers are seeking import restrictions to raise their revenues. But they have been so successful with this strategy that the effective level of steel import protection today is higher than at any time since the Smoot-Hawley Tariff Act of 1930 was being unwound. The United States has become, in essence, a high-priced island in an ocean of low-priced steel.

The problem is that an increase in revenues for steel mills means an increase in costs for the many companies that use steel as an input. More than half of all imports are used as inputs by manufacturers; restricting imports is going to hurt companies that depend on them. Even a relatively modest increase in U.S. manufacturing costs can make American companies uncompetitive against their foreign rivals. Carrier is hardly the only steel-consuming company that could trim its costs by moving production to Mexico.

From the standpoint of the U.S. economy, anti-dumping and countervailing duty measures don't produce a balanced outcome in which gains to steel mills are offset neatly by losses to steel users. The reason has to do with the relative sizes of the two sectors.

Data made available by the Department of Commerce's Bureau of Economic Analysis indicate that value added to the economy by iron and steel mills amounted to $36 billion in 2015. Manufacturers that utilize steel as an input generated value added of $1.04 trillion, almost 29 times larger.

The disparity in employment is even greater. Iron and steel mills employed140,000 workers in 2015, but manufacturers utilizing steel as an input employed 6.5 million, or 46 times more. The difference in size of the sectors means that it would take a loss of only 2 percent in the number of jobs at steel-consuming industries to equal the entire workforce of U.S. steel mills.

Steel production clearly is no small and insignificant industry, but it is a poor policy choice to attempt to protect steel mills in ways that do much greater harm to the substantially larger steel-using sector. This amounts to multiplying the unfairness and shifting it from one sector to another.

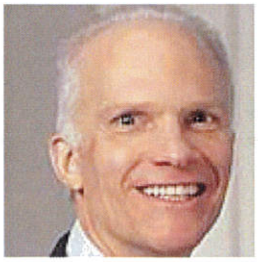
Ross knows a lot about steel. In the early 2000s, at a time of widespread industry bankruptcies, he bought Bethlehem Steel, Weirton Steel and LTV Steel to create International Steel Group (ISG). He later sold ISG to Arcelor-Mittal. ISG appears to have benefited from steel import restrictions, so Ross knows that protection can be convenient for U.S. firms.

However, he also has owned multinational businesses, including International Automotive Components Group (IAC), with 20 facilities in nine countries. Thus, he no doubt understands the importance of maintaining global supply chains to serve customers around the world.

These experiences make Ross uniquely qualified to guide a reform of anti-dumping and countervailing duty policies so that they no longer inadvertently damage the U.S. economy. As a leader on trade in the Trump administration, Ross will be in a position to dismantle steel import restrictions that currently are harming the broad manufacturing sector.

He also would have the option of pursuing governmental assistance for the steel industry as it adjusts to open borders. Finally, Ross should push for a change in the law so that future anti-dumping and countervailing measures only could be imposed when economic analysis shows that benefits would outweigh the costs.

By implementing these reforms, Wilbur Ross would bring about a genuine turnaround in U.S. trade policies. He would fulfill Commerce's mission by strengthening the economy while also maximizing employment opportunities in manufacturing. His actions have the potential to transform the department so it no longer serves as a drag on business activity, but instead helps the sector to be globally competitive.



Daniel Pearson is a senior fellow in trade policy studies at the Cato Institute.

COMMENTARY

The U.S. and China Are Both Wrong on Steel

By Daniel R. Pearson

This article appeared in Forbes on May 23, 2016.

The United States and China have begun a "bilateral steel dialogue" to discuss curbing surplus global supplies. China is the world's largest steel producer and exporter. The United States is the fourth largest producer and a leading importer, so a useful exchange of ideas ought to be possible. But don't hold your breath.

This exercise is likely to amount to a dialogue of the deaf for the simple reason that neither side gives any indication of actually understanding the economics of the situation. Both sides should seek to resolve the dispute by reorienting their policies to align with their underlying economic interests.

Clumsy central planning has led to the greatest oversupply of steel-making capacity the world has ever seen. Chinese policymakers set their steel sector on a path of continual expansion, which led to an eight-fold increase in that country's steel output over the past 15 years. However, Chinese leaders forgot to build an "off" switch into their steel-making leviathan, which now produces fully half the world's output.

China should shut down a portion of its steel industry

Countries with market-oriented economies would have stopped building mills long before the expected return on investment became negative. China has not been constrained by such financial discipline. For China, bringing new mills on line actually subtracts value from the economy rather than adding it. New mills devalue all the mills built previously, so asset values of the country's steel makers have plunged. Then, when China exports steel at bargain prices, it effectively transfers some of that lost wealth to other countries.

It would serve China's economic interests to shut down a large portion of its steel industry. The country is believed to have in excess of 1,200 million metric tons (MMT) of steel capacity, and actually produced more than 800 million metric tons (MMT) in 2015. For starters, at least 200 MMT of useable capacity should be shuttered permanently. China should do this not because other countries want it to cut back, but because reducing capacity would strengthen the remaining portion of China's own steel industry. Although more closures likely would be needed, this first step would help to staunch the bleeding and may allow much of the industry—in China and other countries—to return to profitability.

Since steel is a globally-traded commodity, China's excesses are bedeviling steel producers around the world. The United States is no exception. In the face of rising imports, American production declined 11% over the past four years, dropping from 89 MMT in 2012 to 79 MMT in 2015. Some firms are losing money. U.S. steel producers are justifiably unhappy with the circumstances.

Protectionist measure by the U.S.

Unfortunately, U.S. policymakers seem determined to follow a protectionist path that won't provide much (if any) help to the U.S. steel industry, but definitely will hurt the broader U.S. economy. Steel producers hope that imposing a few more anti-dumping or countervailing duty (AD/CVD) restrictions might help to raise prices by further limiting imports of steel. However, the 149 AD/CVD measures currently in place obviously haven't returned the steel industry to health, so it's folly to think that a handful more would make any difference.

The real cost of import restrictions is the harm they do to manufacturers of value-added products that use steel as an input. Those downstream manufacturers are a much larger factor in the U.S. economy than are steel producers. Department of Commerce statistics indicate that "primary metal manufacturing," which includes steel, copper, aluminum, magnesium, etc., added about $60 billion of value to the economy in 2014. Downstream manufacturers that utilize steel as an input generate value added of $990 billion, more than 16 times larger. Employment by primary metal manufacturers was 400,000, while downstream manufacturers employed 6.5 million, also 16 times greater.

Steel import restrictions have made the United States a high-priced island in an ocean of low-priced steel. U.S. prices have not been high enough to return the steel industry to profitability, but they are high enough to give imported goods an advantage when competing in the U.S. market against domestic manufacturing firms. Carrier has been criticized by politicians for its decision to move 2,100 air conditioner jobs from Indiana to Mexico. It seems likely that the many AD/CVD duties against steel—not to mention restrictions on imports of copper tubing and aluminum extrusions—played a role in that decision. Carrier can escape those policy-imposed costs simply by moving production across the border.

A clear message to China

The United States should deliver this message to the Chinese: Thank you for transferring so much wealth from China to the United States by selling low-priced steel. It's helping to keep our large manufacturing sector globally competitive.

This approach has a decent prospect for getting the attention of Chinese leaders and encouraging them to downsize and restructure their steel industry.

And, after tweaking the Chinese, U.S. officials should follow up by reforming AD/CVD laws so that import restrictions could be imposed only when economic analysis shows that benefits would outweigh the costs. It makes no sense to respond to economic harm caused by low-steel prices by imposing policies that do even more damage to the U.S. economy.

Dan Pearson is a senior fellow in trade policy studies at the Cato Institute. He served on the U.S. International Trade Commission.