

Opinion **Protectionism**

Latin America is the victim of protectionist contagion

'Steel wars' with China show how difficult it is to contain global tariffs

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A factory for steel coffins in Ecatepec, Mexico state. Mexico, Chile and Brazil recently announced new tariffs on steel imports © Alfredo Estrella/AFP via Getty Images

Monica de Bolle YESTERDAY

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The US and Europe have grown increasingly impatient with China's overproduction of steel and habit of "dumping" goods at cheap prices in overseas markets. Presidents Donald Trump and Joe Biden have imposed so many tariffs on Chinese steel that hardly any gets into the US these days. Europe has tariffs on 20 different grades of Chinese steel.

But these well-publicised disputes between China and its two biggest trading partners have led to a worrisome trend elsewhere. Protectionist measures, however well-intentioned, are hard to stop once they start. A little-noticed protectionist contagion is now spreading to other parts of the world, notably Latin America.

In April, Mexico, Chile and Brazil announced new tariffs on steel imports, citing an unprecedented influx of cheap steel products that was threatening local steel companies

companies.

Colombian authorities have said they intend to follow suit, though no formal announcements have been made. Although Brazil and Mexico stopped short of mentioning China specifically, Chile has criticised pricing from Chinese steel producers.

How did the situation come to this point? The trade barriers imposed by Trump and Biden have in effect closed Chinese steel exports from US markets. As a result, excess steel produced by China has been diverted to other markets around the globe. Latin America, a target of those exports, also produces and uses steel in abundance.

Mexican and Chilean steel tariffs are already in effect. Mexico's tariffs cover a range of goods in addition to steel products, all originating from countries with which it has no pre-existing free trade agreements. The Chilean and Brazilian measures are, for now, limited to steel.

While Chile and Mexico have adopted tariffs as the sole protectionist instrument against the flood of Chinese steel, Brazil has opted for a tariff-quota combination. According to the country's Ministry for Industry and Commerce, a tariff of 25 per cent is due to apply to imports exceeding 30 per cent of the average import volume for 2020-2022. The average import duty for steel products is 10.8 per cent.

Latin America's "steel war," as the regional press calls these disputes, has political implications. Until recently, the region's countries refrained from following the US in its trade wars with China, reflecting their heavy dependence on China for trade and investment.

That has now changed. In fact, the countries that have announced trade-restrictive measures against Chinese steel all have "China-friendly" governments that maintain close ties with Beijing.

Brazil's actions come despite its membership of the Brics geopolitical bloc and the support that President Luiz Inácio Lula da Silva has given to China and Russia in the Russia-Ukraine conflict. The country's newfound protectionism against China may well backfire.

Latin America's steel tariffs bear an important lesson. Once started, protectionism is hard to contain and manage. As soon as a large market such as the US or the EU decides to close itself off from external competitors, the resulting cascade of antitrade measures can escalate, sometimes out of control.

While tariffs may be initially justified by predatory pricing, the need to defend domestic companies from undue external pressure, or other defensive arguments, the end result is predictable: ultimately, everybody loses. Losses may come in the form of inefficiencies, higher prices, a reduction in competitiveness and productivity, or all of the above. It may take time for the inevitable outcome to materialise, but that is not a reason to ignore the dangers of sprawling protectionism, trade wars, and the geopolitical blowback they can cause.

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