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Economic Letter from Asia: Talking Steel (and Aluminium)

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Written by [Tian Yong Woon](#)

This week, we focus on the steel and aluminium sector, following last week's round of tariff measures from the US administration. President Trump's 25% tariffs on steel and aluminium are aimed at addressing concerns over unfair trade practices and excess capacity, with China explicitly singled out as a major contributor to these issues. However, it remains to be seen whether these tariffs will effectively resolve the problems they are intended to address, especially since China's share of US imports in these sectors is relatively small (chart 1). In fact, Canada is the largest supplier of these products to the US (chart 2), and may face cumulative tariffs of 50% if all of the US's announced measures against the country are implemented. That said, even with these steep tariffs, the immediate impact on Canada's exports and broader economy may be limited, given that steel and aluminium exports account for a small portion of Canada's overall exports (chart 3).

Delving deeper into China's overcapacity issues, several indicators continue to signal persistent challenges, such as the ongoing deflation in producer prices for related metal products and broader export prices (chart 4). A closer look at China's steel industry shows that local producers have been struggling long before the prospect of Trump's tariffs re-emerged (chart 5), facing weak domestic demand and fierce competition that have driven prices down. Beyond tariffs, we also touch on political interventions driven by national security concerns, such as the US blocking Nippon Steel's acquisition of US Steel, though President Trump has recently signalled some flexibility on this matter. While this transaction is small in the context of Japan's

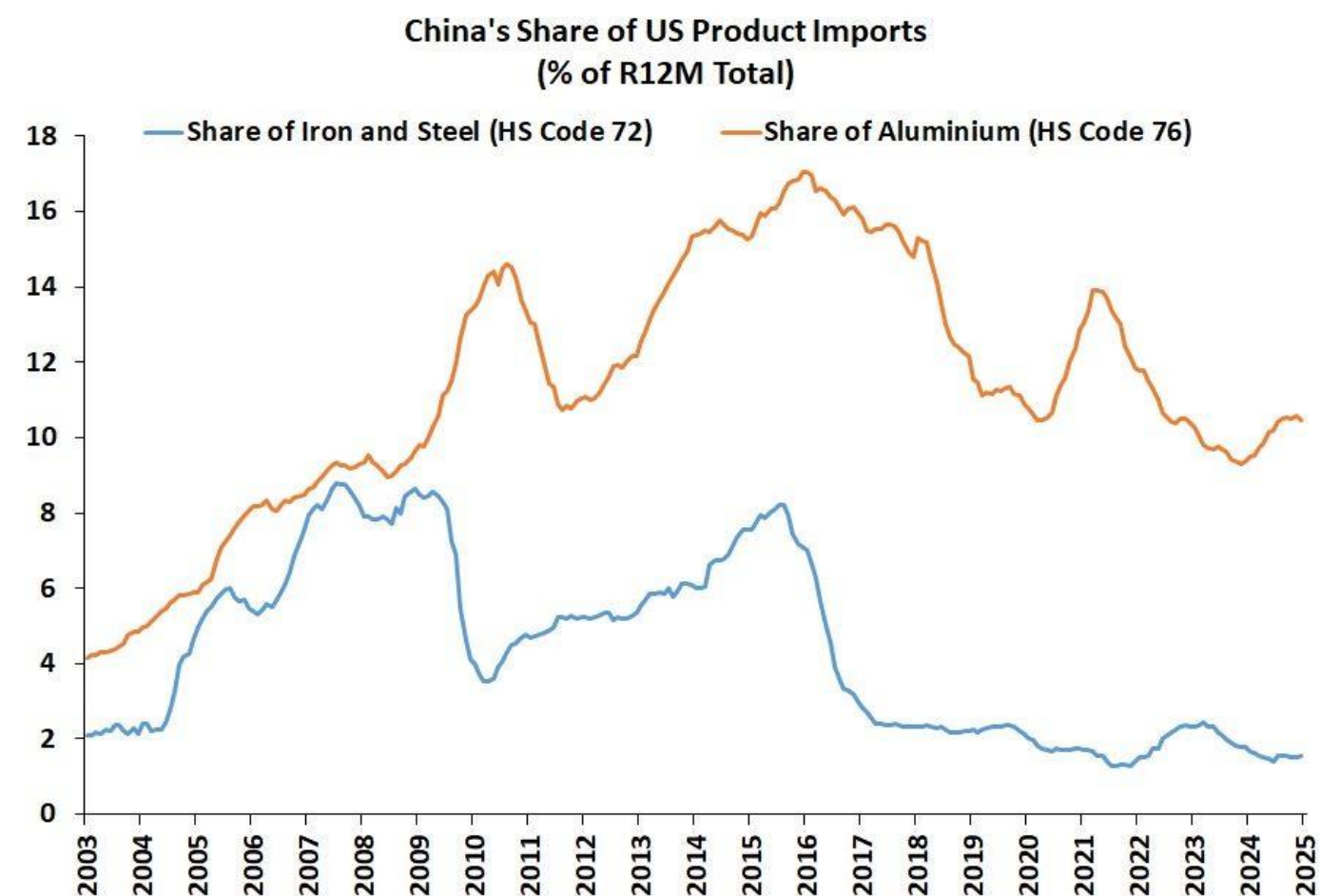
broader foreign direct investment in the US (chart 6), it highlights the intersection of trade and national security policies.

The US' latest tariff actions

On February 10th, US President Trump escalated his tariff actions by announcing a 25% tariff on all US steel and aluminium imports, set to take effect on March 12. According to the White House, this move is intended to protect the US steel and aluminium industries, which are said to have been negatively impacted by unfair trade practices and global excess capacity. Specifically, China has been identified as one of the key sources of this excess capacity.

However, according to official figures, China's share of US steel imports is relatively small, accounting for less than 2% by the end of last year, as shown in chart 1. China's share of aluminium imports to the US is higher but still not dominant, at around 10%. These statistics may not fully capture the situation, however, as some US steel and aluminium imports could have been rerouted from other countries, possibly to bypass previous tariffs, before ultimately entering the US market. This rerouting may be a key factor in President Trump's decision to impose blanket tariffs this time, rather than offering exemptions as in previous instances.

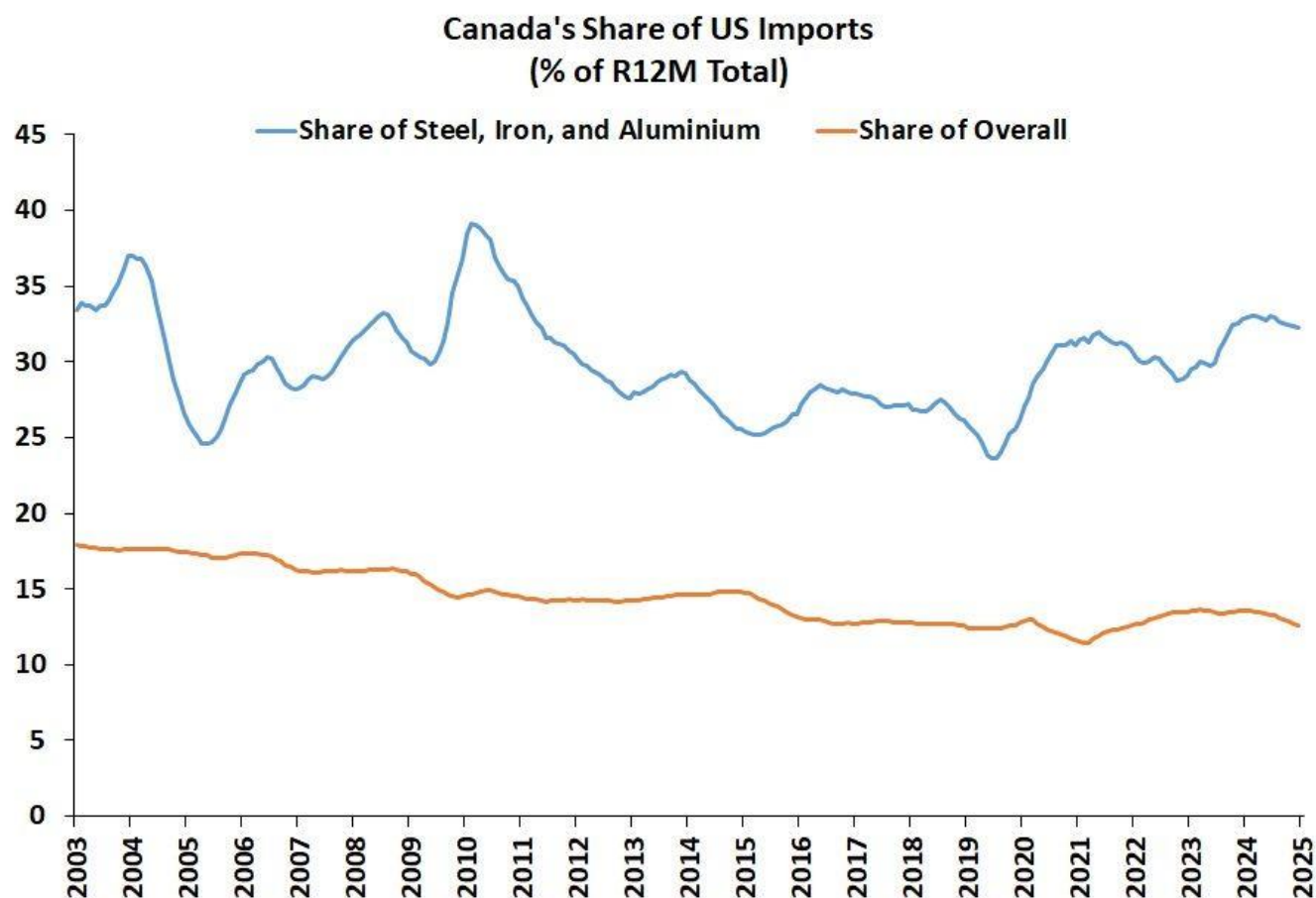
Chart 1: China's share of US product imports



Source: US Census Bureau, Haver Analytics

This raises the question: Who, then, is the US economy's largest supplier of steel and aluminium? A closer look reveals that Canada is not only the largest supplier of both steel and aluminium to the US but also one of its top trading partners, as shown in chart 2, alongside Mexico and China. Furthermore, Canada may face a more severe tariff situation than China, following the recent clarification by the White House that tariffs will be "stacked." This means the tariffs will be cumulative for Canada if the previously announced 25% tariff on Canadian goods, along with the new 25% steel and aluminium tariffs, are implemented. As a result, the Canadian steel and aluminium sector could face a stiff 50% tariff if imported into the US.

Chart 2: Canada's share of US product imports

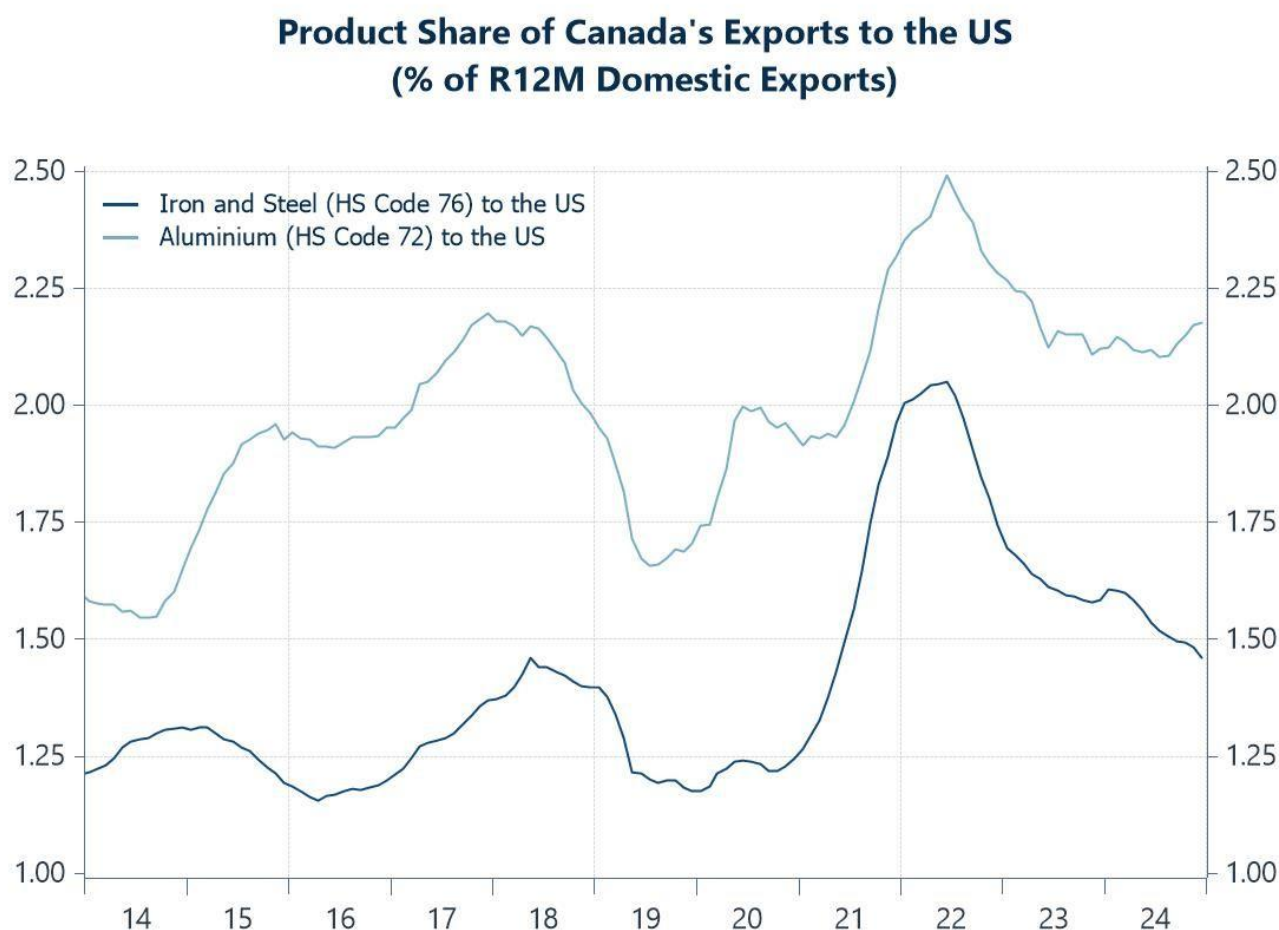


Source: US Census Bureau, Haver Analytics

Despite this, the overall impact of the steel and aluminium tariffs on Canada's total exports may be relatively minor. Canada's steel and aluminium exports to the US account for less than 4% of Canada's overall exports as of December (chart 3). While Canada's steel and aluminium industry is likely to face a significant blow, US importers who depend on Canada as a key supplier may also experience a considerable impact. This mirrors the situation with US imports of Canadian crude oil, a theme we explored in last week's letter. The ripple effects of higher steel and aluminium import prices (due to embedded tariffs) are likely to be widespread

in the US, impacting costs and jobs across sectors such as construction, transportation, and many other areas of manufacturing.

Chart 3: Product share of Canada's exports to the US



Source: Statistics Canada/Haver Analytics

Revisiting overcapacity

Next, we explore the overcapacity concerns that the US, along with several other major economies, have frequently raised regarding China. Overcapacity occurs when producers manufacture more of a product than consumers can absorb, resulting in an oversupply in the market. When there is excess supply, prices tend to fall. As such, the persistent deflationary price trends of certain goods have often been used as an indicator of overcapacity, though such price changes alone are not enough to confirm it.

Chart 4 illustrates an indicator of China's overcapacity, showing a decline in producer prices for smelting and pressing of ferrous metals, metal products, and overall export prices over the past few years. This consistent drop hints at ongoing overcapacity issues. Despite repeated concerns from China's key trading partners, these problems have persisted. However, it is important to recognize that China's overcapacity challenges are not

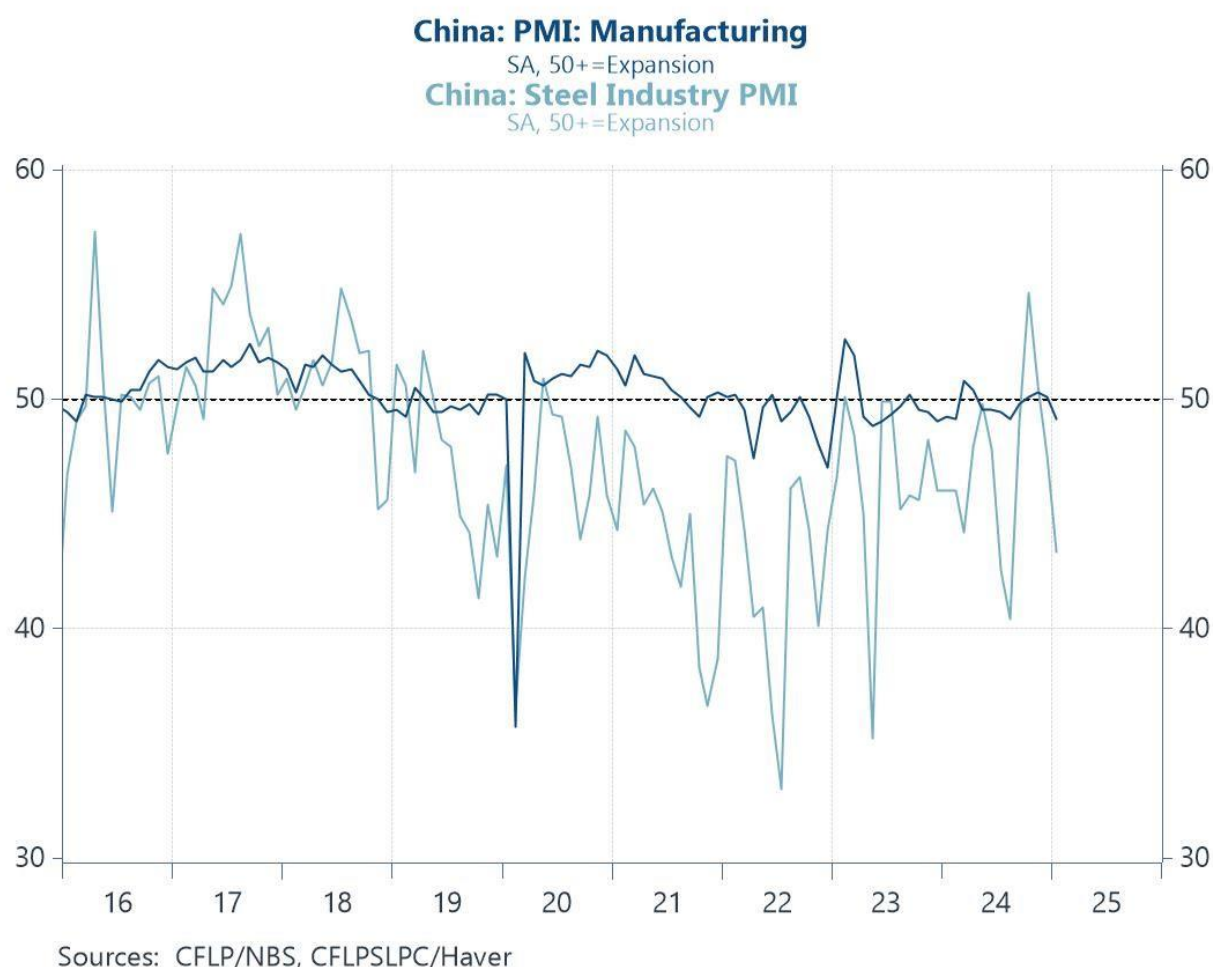
easily resolved in the short term. They likely stem from deeper structural issues within China's economic model, which has led to distortions concerning excess savings and overinvestment.

Chart 4: China producer and export price inflation



A closer look at China's steel industry reveals that the sector has been facing challenges long before Trump's return to office earlier this year. As shown in chart 5, China's steelmakers have struggled to sustain meaningful growth since 2019, as indicated by the sector's PMI readings, which have rarely remained above the neutral 50 level for extended periods in recent years. Domestically, China's steel producers continue to face difficult conditions, with weak domestic demand driven by a broader economic slowdown and ongoing overcapacity issues. These factors have resulted in intense competition among local producers, often triggering price wars that depress sales prices. Given that the US accounts for only a small portion of China's steel exports, Trump's tariff actions on Chinese steel are unlikely to hamper the industry significantly further, at least for now.

Chart 5: China's official manufacturing PMI vs. steel industry PMI

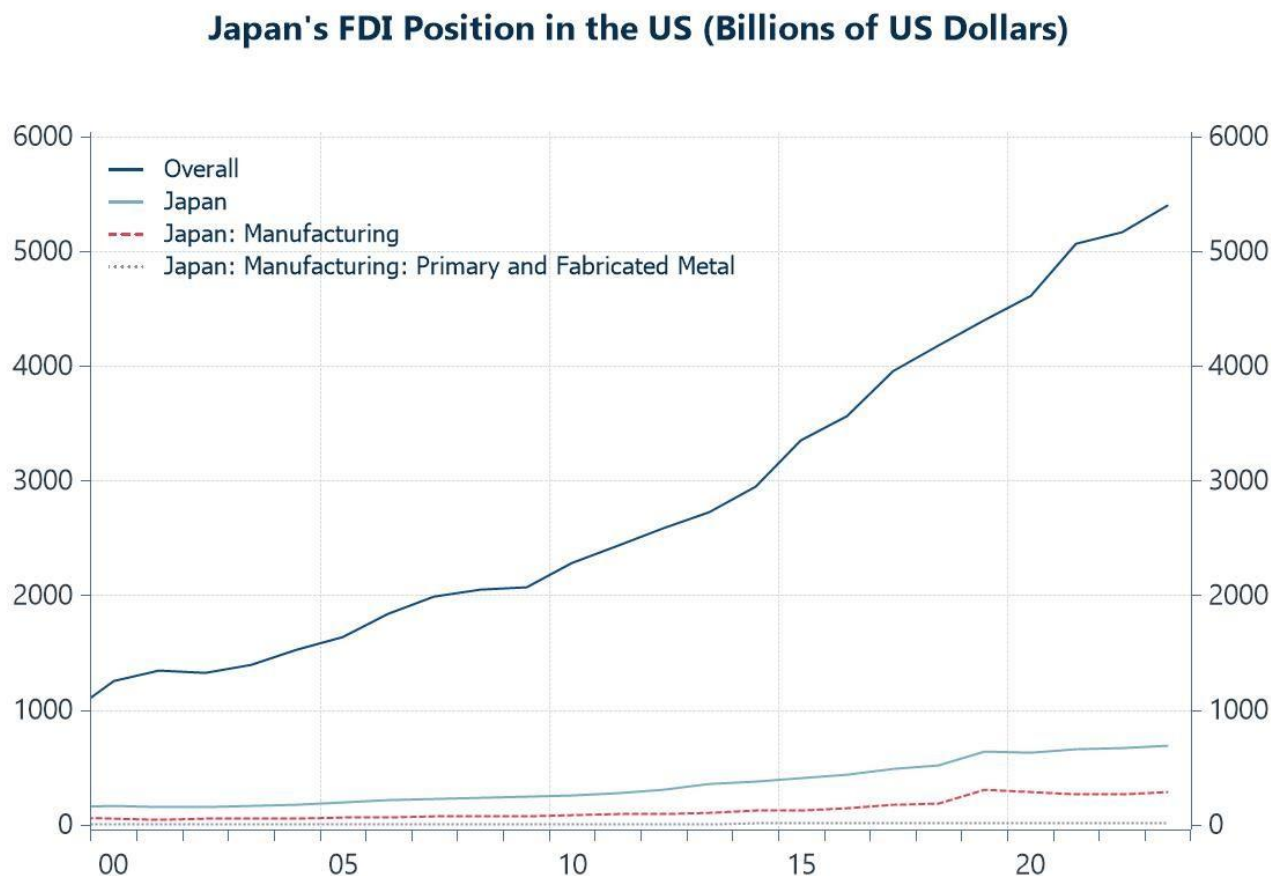


Beyond tariffs

Beyond tariffs, another recent development in the US steel and aluminium sector involves Nippon Steel's attempt to acquire US Steel. While the previous administration under President Biden strongly opposed such a move, current President Trump now seems more open to exploring alternative possibilities. Trump has recently stated that, while he remains opposed to an outright acquisition, he is willing to consider Nippon Steel making a significant investment through a minority stake in US Steel.

What stands out in this situation is that political interventions like the one made by Biden, which blocked the deal, are rare in the US, given the generally open nature of the US economy. Taking a broader view, this potential transaction, while significant for Japan's commercial presence in the US, would still have a minimal impact on Japan's overall foreign direct investment (FDI) position in the US, as illustrated in chart 6. As the chart shows, Nippon Steel's potential investment in US Steel would simply be one of many investments Japan has already made in the US.

Chart 6: Japan's FDI position in the US



Source: Bureau of Economic Analysis/Haver Analytics

About the author



Haver Analytics is pleased to bring [Tian Yong Woon's](#) commentaries on the state of the global economy to its clients.

Tian Yong joined Haver Analytics as an Economist in 2023. Previously, Tian Yong worked as an Economist with Deutsche Bank, covering Emerging Asian economies while also writing on thematic issues within the broader Asia region. Prior to his work with Deutsche Bank, he worked as an Economic Analyst with the International Monetary Fund, where he contributed to Article IV consultations with Singapore and Malaysia, and to the regular surveillance of financial stability issues in the Asia Pacific region. Tian Yong holds a Master of Science in Quantitative Finance from the Singapore Management University, and a Bachelor of Science in Banking and Finance from the University of London.

Data featured in this commentary:

Chart 1: China's share of US product imports

Please refer to Excel file included in VG3 folder download

Chart 2: Canada's share of US product imports

Please refer to Excel file included in VG3 folder download

Chart 3: Product share of Canada's exports to the US

Series 1: (movt(TD72US@CANADA,12) % movt(V7083280@CANADA,12))

TD72US@CANADA [Canada: Domestic Exports to US: Iron and Steel (NSA, Thous.C\$)]

V7083280@CANADA [Canada: Domestic Exports (NSA, Thous.C\$)]

Series 2: (movt(TD76US@CANADA,12) % movt(V7083280@CANADA,12))

TD76US@CANADA [Canada: Domestic Exports to US: Aluminum and Articles Thereof (NSA, Thous.C\$)]

V7083280@CANADA [Canada: Domestic Exports (NSA, Thous.C\$)]

Chart 4: China producer and export price inflation

Series 1: N924PPMP@EMERGEPR

N924PPMP@EMERGEPR [China: PPI: Metal Products (NSA, Y/Y %Chg)]

Series 2: N924PPSF@EMERGEPR

N924PPSF@EMERGEPR [China: PPI: Smelting and Pressing of Ferrous Metals (NSA, Y/Y %Chg)]

Series 3: yyr%(N924PFXI@EMERGEPR)

N924PFXI@EMERGEPR [China: Export Price Index (NSA, 2010=100)]

Chart 5: China's official manufacturing PMI vs. steel industry PMI

Series 1: S924VM@EMERGEPR

S924VM@EMERGEPR [China: PMI: Manufacturing (SA, 50+=Expansion)]

Series 2: S924VS@EMERGEPR

S924VS@EMERGEPR [China: Steel Industry PMI (SA, 50+=Expansion)]

Chart 6: Japan's FDI position in the US

Series 1: I001D@USINT

I001D@USINT [Foreign Direct Investment Position in the US (Hist.Cost, Mil.\$)]

Series 2: I158D@USINT

I158D@USINT [Foreign Direct Investment Position in the US: Japan (Hist.Cost, Mil.\$)]

Series 3: I158DEG@USINT

I158DEG@USINT [Fgn Direct Investment Position in the US: Japan: Manufacturing(Hist.Cost, Mil.\$)]

Series 4: I158DGA@USINT

I158DGA@USINT [FDI Position in the US: Japan: Primary & Fabricated Metal Mfg (Hist.Cost, Mil.\$)]

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