Steel 2

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Submission date: 30-Nov-2021 09:58PM (UTC-0500)
Submission ID: 1716982929
File name: EDITED_Steel_Tariffs.edited.docx (17.31K)
Word count: 722
Character count: 3858

Steel Tariffs

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Question 1

The large steel companies in the United States steel industry was the loser in the steel tariffs introduced by George Bush as a way of promoting the domestic steel industry. The president followed the advice from the international trade commission (ICT) that the domestic steel industry faced potential threats from an increased volume of steel imports. The temporary relief was imposed as a way of protecting the domestic market. However, the performance of the industry after the imposition of the tariffs did not turn out as expected. The results of the tariffs however did not turn out as expected. The tariffs had various negative implications on the domestic industry contrary to the expected result. The tariffs did not work as the president and the commission expected but rather presented harm to the economy and the steel industry. The domestic steel industry as a result lost from the negative implications and the crisis the tariffs presented to the domestic market. The implementation of the policy received varying reactions from different participants including the policymakers (Rosegrant, 2002). The consequences of the imposed tariffs extended from the increased dumping in the domestic steel industry to impact the economy as well as the country's relations with other countries affected by the tariffs. The small companies were the winners from the introduction of the tariffs. Due to their low cost of production, they were able to enjoy a large market for their produce, increasing the profitability of their operations within the United states market.

Question 2

The government has a role to protect its economy as well as industries operating in the domestic market from unfair competition. The imposition of tariffs is among the ways that government regulates the level of activity from foreign players by imposing a tax rate for imports or exports. There are various factors which the nation may decide to impose tariffs on foreign companies. Protection of the domestic industry from cheap foreign products is significant to ensure that local industries do not face unfair competition (Black, 2015). In the case of the tariffs imposed by George W. Bush, much of the relief imposed was aimed at reducing the level of foreign steel dumping in US local markets at a cheap price. When there is no regulation for this kind of behavior in the market, the customers are likely to opt for the cheaper products in the market. The implications of this go beyond the steel industries while impacting the national economy. Low profitability when there are no relevant tariffs can have negative implications on employment in the country. Poor performance within the steel industry for instance would contribute to loss of employment for people working in the steel industries while contributing to a fall in the level of the GDP. By imposing tariffs, governments show their support in protecting the domestic opportunities of employment as well as stability in their GDP. The domestic market environment also needs to be protected from the potential threat of unfair competition.

Question 3

One of the main reasons why the big companies were not in favor of the imposed steel tariffs is the issue of competition from smaller firms. The large companies were initially competing in the market with foreign steel manufacturers with a higher price for their products. The introduction of the tariffs promoted the participation of small companies which would enjoy much higher profitability than the established companies due to low costs. Unlike the integrated companies, the small companies manufactured steel from melting locally available scrap metals which are less costly compare to the vertically integrated production process. The companies also incurred low costs related to employee benefits as they were still young. Lower production

costs implied a better profit margin which would promote the growth of the companies and increased competition. The large companies feared the threat of increased competition from the small ones as well as the possible steel dumping by these companies in the United States market. The tariffs also had negative implications on the relationship between the US and other countries which would affect their performance in the international market.

References

Rosegrant, S. (2002). *Standing up for steel: The US government response to the steel industry and union efforts to win protection from imports (1998-2001)*. Kennedy School of Government, Harvard University.

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