

## A vicious cycle: on trade wars

Nobody wants to lose a trade war. The European Commission on Wednesday announced it would impose tariffs as high as 25% on imports worth \$3.3 billion from the U.S. beginning July. A whole range of American goods, from motorbikes and jeans to peanut butter and orange juice, will now face higher taxes when sold in the [European Union zone](#). The Commission is also mulling import duties on more American goods if the trade war with the U.S. intensifies. Europe is not alone in waging a battle against imports from the U.S.; China, Mexico and Canada have joined hands in response to President Donald Trump's decision to impose tariffs on steel and aluminium imports. Last week, the U.S. imposed a 25% tax on steel and a 10% tax on aluminium imports from the EU, Mexico and Canada. The first salvo in this ongoing trade war, however, was fired by Mr. Trump in March this year, when he imposed tariffs on Chinese steel and aluminium to protect American producers. Workers in [America's manufacturing sector](#) have played a key role in Mr. Trump's electoral success, so his zealotry to be seen to be protecting their interests is unsurprising. However, consumers in America and the rest of the world are likely to suffer as their respective governments make it costlier for them to access foreign goods and services.

Judging by their actions, it is now clear that America's major trading allies would not really want to lose this trade war against the U.S. The sad fact, however, is that at the end of the day nobody actually wins a destructive trade war. Tariffs that seek to disadvantage foreign producers in favour of domestic producers, whether they are imposed by the U.S. or any of its major trading partners such as Europe or China, only increase the burden of taxes. What this leads to eventually is slower global economic growth. The World Bank has warned that the effect of the increased use of tariffs to regulate international trade could be similar to the significant drop in global trade after the financial crisis a decade ago. Countries that are protesting America's metal tariffs in the name of free trade are also only encouraging further protectionism when they impose retaliatory tariffs. As former Reserve Bank of India Governor Raghuram Rajan aptly put it, the ongoing trade war is a "lose-lose situation" for the warring parties. The only winners will be special interest groups and consumers in countries that do not engage in the tit-for-tat tariff war, but their winnings will come at the cost of global growth. It is high time countries worldwide come together to promote the cause of free trade.

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