

## Avoid trade wars: on America's decision to impose tariffs

World leaders did well to avoid protectionist trade policies in the aftermath of the Great Recession of 2008. After all, they had learned their lessons from the global trade war of the 1930s which deepened and prolonged the Great Depression, or so it was thought. American President Donald Trump last week announced that his administration would soon [impose tariffs on the import of steel and aluminium into the U.S.](#) for an indefinite period of time. The European Union, one of the largest trading partners of the U.S., [has since vowed to return the favour](#) through retaliatory measures targeting American exporters. The EU is expected to come out with a list of over 100 items imported from the U.S. that will be subject to scrutiny. For his part, Mr. Trump has justified the decision to impose protective tariffs by citing the U.S.'s huge trade deficit with the rest of the world. He explained his logic in a [tweet on Friday which exposed a shocking ignorance of basic economics](#). He likened his country's trade deficit to a loss that would be set right by simply stopping trade with the rest of the world. International trade, like trade within the boundaries of any country, however, is not a zero-sum game. So the trade deficit does not represent a country's loss either, but merely the flip side of a capital account surplus. This is not to deny that there are definitely some losers — for example, the U.S. manufacturing industry which lost out to competition from countries such as China due to increasing globalisation. But throwing free trade out of the window would only make Americans and everyone else poorer.

Despite the global backlash, it is unlikely that Mr. Trump will walk back on his decision, especially given its populist resonance. Steelworkers in key States in the U.S. played a significant role in Mr. Trump's election win in 2016. In fact, these are the only people who will benefit from the steel and aluminium tariffs while American consumers as a whole will pay higher prices for their goods. Mr. Trump's desire to appeal to populist sentiment also explains why his protectionist turn comes in the midst of steadily improving economic growth. With Mr. Trump's tariffs not going down well with the EU, it will be important to see how China and other major trading partners respond to his opening salvo. They can take a leaf out of the books of major global central banks which have shown enough maturity to avoid using currency wars as a means to settle disputes. Instead of retaliating with more tariffs, which could cause the current dispute to spiral into a full-fledged global trade war, the U.S.'s trading partners must try to achieve peace through negotiations.

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