

## Why has WTO warned of the possibility of recession?

A World Trade Organization (WTO) logo is pictured on their headquarters in Geneva, Switzerland.

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The United States announced last week that it will impose tariffs on the import of aluminium and steel. The tariff is essentially a tax on the manufacturers of foreign steel and aluminium who, unless they find other ways to cut down their costs, could possibly be outplayed by their American competitors. U.S. President Donald Trump justified the decision arguing that free trade is the reason why the U.S. suffers a huge trade deficit. He also believes that tariffs can help protect American businesses and jobs from the threat posed by foreign competition. Notably, Mr. Trump had won the election in 2016 by promising to put "America First".

Most economists support free trade because it allows free competition without any of the protective barriers imposed by governments. Such competition is believed to give consumers access to cheaper and better products from across the world, thus improving their standard of living over time. Mr. Trump, however, hopes to protect American manufacturers who have failed to keep up with global competition through the means of restrictive tariffs. Naturally, this will affect consumers across the world, which includes ordinary Americans, who will no longer be able to enjoy the full benefits of free trade across borders. Further, the tariffs imposed by Mr. Trump may also fail to address America's trade deficit with the rest of the world as long as Americans prefer foreign goods while foreigners prefer American assets.

Unfortunately, except for special interest groups who can influence the trade policy of their respective governments, there are likely to be no winners as a result of a global trade war. In fact, ordinary consumers of all countries are likely to lose as a result of any trade war between countries. The World Trade Organization this week warned that Mr. Trump's trade war could lead the world into another recession.

A major global trade war in the 1930s had disastrous results as it deepened the Great Depression. Yet the European Union (EU) has vowed to hit back by imposing retaliatory tariffs on the import of American goods. Some argue that such knee-jerk reaction from the EU may only increase the burden on European businesses and their consumers. It might also spur further trade restrictions from the U.S., thus risking a full-fledged global trade war.

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