

US tariff move challenges rules-based multilateralism

Just as the global economy was announcing that it had finally shrugged away the ghosts of the 2008 recession, the chief executive of the largest economy announced his decision to increase import tariffs on steel and aluminium to 25% and 10% respectively.

Within a week of President Trump announcing these drastic steps, it has become clear that these steps would not only sow the seeds of uncertainty in the global economy at a critical juncture, but more importantly, they would trigger the unsavoury prospect of a trade war, reminiscent of the 1930s. More fundamentally, this development raises a number of critical issues that are central to the global trading regime.

It must be pointed out that last week's announcement of unilateral hikes in import tariffs is part of a larger plan of the Trump administration to engage in trade protectionism. A month ago, steps were taken to provide import protection to two other sets of products, namely washing machines and solar cells and modules. Tariffs on steel and aluminium have been raised by invoking the provisions of Section 232 of the Trade Expansion Act of 1962 that allows the administration to protect domestic industries for "national defence" and "national security". On the other hand, tariffs on washing machines and solar cells are being raised by using Section 201 of the Trade Act of 1974, which sanctions the use of safeguard measures.

Imposition of import tariffs on steel and aluminium is a real source of concern as the administration has interpreted "national security" to include "general security and welfare of certain industries, beyond those necessary to satisfy national defence requirements that are critical to the minimum operations of the economy and government". This interpretation lends itself easily to bringing substantially more products under the dragnet of import tariffs. Equally egregious is President Trump's insistence that the tariff increases on steel and aluminium are for an "unlimited period".

For the past few weeks, the US President has been suggesting that he would push for the imposition of "reciprocal tax" against countries imposing tariffs on American products. Although the president has not clarified as to how his proposed "reciprocal tax" would be designed or implemented, this proposal is bound to draw ominous parallels with the infamous Smoot-Hawley Tariff Act of 1930 (after its sponsors, Senator Reed Smoot and Representative Walter Hawley). The objectives of the Smoot-Hawley Tariff Act were almost identical to those laid out by President Trump, namely, to protect jobs in American industry and agriculture by shielding domestic industries from import competition, using tariffs on a large number of products. In the wake of the Smoot-Hawley Tariff Act, trade partners of the US imposed retaliatory tariffs, restricting access to American products in their markets. Many analysts have argued that the trade wars were responsible for deepening the economic crisis arising from the stock market crash in 1929 and causing the Great Depression of the 1930s.

Since the US administration's announcement of tariff hikes on steel and aluminium, its major trade partners, in particular the EU and Canada, have been threatening to retaliate by targeting American icons like Harley-Davidson, Kentucky bourbon and Levi's jeans.

The first salvo was fired on 7 March with EU trade commissioner Cecilia Malmstrom announcing concrete plans to retaliate against the proposed US tariffs.

These include imposition of higher import duties on bourbon, peanut butter, cranberries, orange juice, steel, and industrial products. The implications of the ill-thought-out plans of the Trump administration on its trade with its partners are getting increasingly clear.

Yet another parallel harking back to the beginning of the 1930s is the exercise of American unilateralism for protecting domestic entities. In the earlier period, the then administration exercised its freedom to impose import tariffs in the absence of global trade rules. Nearly nine decades later, the Trump administration is treading the same path; this time it is doing so by completely disregarding the disciplines of the World Trade Organization (WTO). This disregard for WTO rules is not something that is new for the Trump administration. Over the past year, it has de facto rejected the multilateral trading system through a systematic process of non-engagement, the reality of which was clearly evident in the 11th Ministerial Conference in December 2017 when the US remained mostly on the sidelines of the event. But, by initiating this latest move of tariff wars, the Trump administration is challenging the very existence of the post-war rules-based multilateralism, which, despite its limitations, has made efforts to bring order in the way sovereign states engage in trade.

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