Fears of Resurgent Worldwide Protectionism

What is the issue?

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- Many nations have stated that they will retaliate by imposing import duties against the U.S., if Mr. Trump goes ahead with his customs proposals.
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- Such aggressive posturing runs the risk of re-establishing worldwide protectionism that could potentially weaken the entire global economy.
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What is the rationale behind US move?

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- U.S. President Trump recently announced that his administration would soon impose tariffs on the import of steel and aluminium indefinitely.
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- Trump has justified the decision to impose protective tariffs by citing U.S.'s huge trade deficit with the rest of the world.
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- While this has triggered a global backlash, it is unlikely that Mr. Trump will walk back on his decision, especially given its populist resonance.
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Why is it a flawed reasoning?

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- The announcements seems premised on the belief that "trade deficit inherently means loss" - a flawed economic conception.
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- Trump seems to be of the view that international trade is a “zero-sum game”.
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- And that it is good to simply block international trade to reduce deficits.
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- While the move would benefit steelworkers, all other American consumers as a whole will be paying higher prices for their goods.
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- Trade deficit does not represent a country’s loss, but merely the flip side of a capital account surplus.
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- Countries do have certain domestic losers due to low tariffs and consequently deficits.
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- E.g. the U.S. manufacturing sector lost out to global competition.
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- But curtailing free trade would only make Americans and everyone else poorer.
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- Notably, this was the phenomenon that was witnessed in the aftermath of the Great Depression.
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How have other countries reacted?

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- The EU, which is one of the largest trading partners for the U.S., has vowed to return the favour through retaliatory measures targeting U.S. exporters.
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- Notably, the EU is soon expected to come out with a list of over 100 items imported from the U.S. that will be subject to scrutiny.
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- China, which is a major iron and steel importer to the U.S has not reacted thus far, and its response to the announcements will be very significant.
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- Instead of retaliating with more tariffs, which could cause the current dispute to spiral, achieving a truce through negotiations would be better.
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Source: The Hindu

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