Trade Detente with U.S

What is the issue?

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- The U.S. has initiated a global trade war by steeply raising tariffs.
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- But in the midst of this tense context, a bilateral deal has been reached between the U.S. and Mexico, which offers some hope for reducing tensions.
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What is the context of the deal?

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- NAFTA deal was tripartite agreement between “Canada, U.S. and Mexico” that was signed in 1994 and was operational till recently.
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- President Trump had called for renegotiating the terms of the deal, which he felt was discriminatory to the U.S. and causing loss of business.
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- In June 2018, Mr. Trump had stated that he was inclined to sign two different agreements with Mexico and Canada as a replacement to NAFTA.
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- U.S. and Mexico recently reached a bilateral trade agreement that will replace the decades-old North American Free Trade Agreement (NAFTA).
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- In this context, with the deal with Mexico over, the U.S. has now invited Canada to join talks for a renegotiation of trade terms.
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What are the specifics of the current deal?

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- This has come up after Mexico agreed to some concessions demanded by the

Donald Trump administration in the U.S.
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- According to the new agreement, 75% of all automobile content must be made regionally, which is higher than the current level of 62.5%.
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- Further, the agreement mandates that 40-45% of such content must be manufactured using labour that costs at least $16 an hour.
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- U.S. hopes that this will discourage manufacturers from moving their facilities to Mexico, where labour is available at rates lower than in the U.S.
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- Notably, U.S. stocks rallied after news of the deal, with the Nasdaq Composite index moving above the 8,000 level for the first time ever.
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What are the larger implications?

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- The market reaction was probably a sign of relief, amid hopes that tit-for-tat tariff wars between the U.S. and its trade allies could now draw to a close.
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- This is also significant as Mexico had earlier joined hands with other economies such as Canada, China and EU to impose retaliatory tariffs on U.S.
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- Mexico’s decision could set an example for other countries which have resorted to retaliatory tariffs to deal with Mr. Trump’s aggressive trade war.
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- Notably, China has been at the forefront of this approach, slapping tariffs on several U.S. goods, together worth billions of dollars.
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What is the way ahead?

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- Mr. Trump’s protectionist trade policy, including the current deal which increases restrictions on cross-border trade, is bad for the global economy.
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- However, the best way to win the trade war against the U.S. may simply be to accept “defeat” by refusing to double down on retaliatory tariffs.

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- This is born out of the reason that retaliatory tariffs can only cause further harm to the world economy by increasing the burden of taxes.
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- This will disproportionately harm the private sector, which is crucial to spur growth and create jobs in the economy.
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- Further, to repeat Mr. Trump’s mistake of depriving domestic consumers of access to useful foreign goods, and this isn’t desirable.
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- While protecting the domestic businesses is indeed one ground on which countries may impose tariffs, it needs to be judiciously used.
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- The right response to Mr. Trump’s trade war will be to abstain from any mutually destructive tit-for-tat tariff regimes, while pressing for better deals.
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Source: The Hindu

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