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Essay

"Global trade wars & where is the world headed?"

1930 USA's President Herbert Hoover imposed a series of tariffs on imports initially to protect USA's farm sector only. ~~but~~ But the policy got out of hand & by 1933 some 20,000 goods were under the ambit of the famous "Smoot-Hawley Act". This hurt both USA's exports (−33% by 1933) & other countries exports. The worse impact of this was borne by the poors ~~w~~ due to the ongoing "Great Depression (1929–33)".

2018 USA President imposed stiff tariffs on steel & Aluminium imports from all countries. All countries in turn retaliated by imposing tariffs on USA's exports. In a game of tit-for-tate the USA government imposed multiple rounds of tariff on various goods & this in turn was & is being reciprocated by other countries esp. China.

As evident from the above two examples, trade wars are not a new or recent phenomenon. They have existed since humans invented laws governing economic systems of the country & world. In fact, some important historical events like American Revolution (1775–1783) were due to UK imposing heavy duties on American goods.

The issue has both negative & positive (though limited & short-term) connotations & we shall try to explore these in this essay.

We will start with understanding what a trade war means, then discuss the reasons for the same, its impact on countries & global trade, and in the end what are the ways to tackle this issue & move forward.

Global trade war : A Primer

Trade war is an economic tool in the hands of policy makers to impose both tariff & non-tariff barriers on imports from a particular country, region or the whole world.
Tariff barriers are the most used ferments in ~~t~~ escalated trade wars as they have quick, high impact & great monetary loss for the exporter country (target). While non-tariff barriers exist even on normal times of economic stability. Even though WTO doesn't permit any kinds of bariers (tariff or non-tariff) in global trade, ~~t~~ some exceptions (albeit complex) are allowed.
eg. The current trade war is of tariff form where USA, China, EU, even India are imposing duties on ~~each~~ each other's exports in retaliation.

The reasons & consequences of trade war are many & mostly disasterous for all parties involved. Like in case of Smoot-Hawley Act, 1930, the retaliatoray spree resulted in decades of slow global trade which pushed back developmental agenda & recovery of World War I impacted nations.

"There are no winner in a trade-war".

Let us now look deeper into the causes of such rash moves.

Causes of trade wars: The primary cause prima facie would seem to be only economic security of local business interests. But if we go a little deeper we would find other causes like political, historical, geo-political, strategic & among others. Let us look at each one separately.

Economic causes: Immediate reasons for trade war are economic vulnerability of national companies, Industrial production, cheap imports, unemployment due to offshoring & outsourcing etc. These causes force the government to take immediate & sometimes without proper deliberation actions like trade war. They may or may not be advocated by the Business community of the country.

The target country in-turn has no option but to retaliate in opposition to the move. This option is taken sometimes after negotiating with the initiating country (as happened in the current crisis when leaders like France's Emmanuel Macron, EU heads, German leader, China's Business leaders went & talked to their US counterparts).

But economic reasons are not alone for this. Political causes play an important role.

Political causes : These happen when a country thinks that they have been wronged by ~~the~~ other nations. US President Donald Trump went as far as to say that most deals were "the worst deals in history".

Apart from this, domestic political rheotoric, to show the electors that the leader is working for their benefits by bringing back the jobs or making conservative pressure groups happy play a major role.

Now lets look at some historical causes.

Historical Causes : The two countries engaged in trade war may not be good friends historically. There might be some enmity regards to structure of the polity, policy of nations at odds, cooperation in certain areas etc. The best example of this is India - China & India - Pakistan. After the defeat ~~in~~ of India in 1965 war with China, India can never be too trustfull of China & there is always an Anti-China rhetoric in India.

~~Also some practices like~~ due

lets look at some geopolitical reasons.

Geo-Politics : Another very important reason for the trade war is to channel geo-political anger into economic barriers. Like the USA policy in Middle East, Central Asia, Korean Peninsula, South China Sea etc.

When a nation thinks that its hegemony is challenged in some aspect, trade war may be used to indicate that future ~~@~~ steps may be coming. They serve as a warning to the target nation of initiator's might, power & willingness to go the last mile.

Apart from these there will be multiple host of other reasons pushing a government to take the decision — influence of pressure groups, domestic mood, ability to sustain the damage etc.

As is clear the causes are many & so are the impacts. Lets now switch to impacts.

Trade war: what will it lead to?

The impacts of trade wars are both short term & long term. ~~It depend~~ The magnitude & severity of impacts depend on duration & intensity of the trade war.

It ~~most~~ most immediate impact will be economic, political tensions, spillover effects to other countries, affect on other policies etc. ~~tell~~ Let us look at each of them.

Economic Impacts: It leads to closing of borders for free flow of trade — goods & services. It's impact on developing countries is much more than the developed & self-sufficient ones. trade which impacts the global

Thomas L. Friedman propounded "Dell theory of conflict resolution" in his book "The Flat World".

In this he expresses that global trade is so interconnected that companies ~~that~~ are affected by any change in global relations due to inter-connected, globally expansive supply chain like that of Dell laptops.

Political Impacts: Apart from Economic Impacts, politics of at both national & international stage is affected. Trade wars leads to multiple grudges & hence multiple rounds of negotiations of various parties.
Some countries might find it better to re-align their orientation away from USA, in this case & move closer to China as the new leader of free-trade.

Spill-Over affects & Unintended consequences: Like that for India in case of USA's Iran sanctions. Countries ~~are~~ which are not at all involved with the trade wars are impacted. It may also some times ~~close~~ lead to closure of borders for movement of people in & out of countries. Other impacts include — tourism, cultural relations between countries, enmity between diasporas, clashes ~~to~~ escalation to war.

Impact on India: With the ongoing trade war in the world, India's ~~tag~~ exports are also in the ambit of some of the lists. Some of the effects include—
(i) More proximity of India to EU, Africa, Japan as trading partners.

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(ii) Effect on India's IT sector (~5% of India's GDP), Health care sector (major market is USA)
(iii) Limitation on Indian people movement into USA due to limited VISA (H1B)
(iv) Ongoing India-USA defense deals may be impacted.
(v) Growing importance of regional trade blocks like ASEAN, BRICS, RCEP, SCO etc.
(vi) ~~Detmnt~~ Destablising of rule based world order established by WTO.

Though trade war is mostly a short term strategy, its impact are long-term & irreversible. Let us look to what the world order would move to ~~for~~ due to ~~a~~ ongoing trade war.

~~Fra~~: World order reimagination

Multiple trade blocks, conservatism, redundancy of WTO, TRIPS & other agreements for free-trade are but some of the long term implications of trade war politics.

As Victor Hugo said:-
"What is history? An echo of the past in the future; a reflex of future on the past".

We must take a que from all the ills that have been experienced from earlier trade wars. The amount of years it set back growth of human society.

If the trade-war goes on for more than its expected time, then it may just take a life of itself & go well beyond the control of any one government. It might then once again need leader like "Woodrow Wilson" & his "14-point agenda" to bring the world right back on track.

~~As the saying goes~~ The world (globalised) is not a zero-sum game, it gives positive gains to all its contributing members. Hence we must protect the system while we still can.

There is, but one, seemingly positive implication if the world order does end up re-emerging — reconstitution of WTO, World Bank, IMF on democratic principles, generation of a multi-polar & equal world, new rules for environmental security etc.

But like everything in life & geo-politics — the chances of that happening are slim to none. Hence we are better off protecting what we already have.