



DAILY EDITORIAL ANALYSIS

TOPIC

**WORLD TRADE WAR: WHY HASN'T
THIS RISK RAISED AN ALARM SO
FAR?**

www.nextias.com

WORLD TRADE WAR: WHY HASN'T THIS RISK RAISED AN ALARM SO FAR?

Context

- As the global trade landscape undergoes seismic shifts and the President of the United States **reintroduces aggressive tariffs** — some reaching as high as 50% (framed as 'reciprocal tariffs') — the world has responded with strategic restraint.

Recent Tariffs by US

- Nearly all U.S. trading partners now face **tariffs between 10% and 50%**, with Asian countries averaging 22.1%.
- Countries like **India** face a **25% rate, plus potential penalties** for trading with Russia.
- Only China and Canada have retaliated. Most others have opted to negotiate or comply to preserve access to the US market, despite these provocations.

Historical Parallel: Smoot-Hawley and the Great Depression

- The Smoot-Hawley Tariff Act of 1930** triggered retaliatory barriers that deepened the **Great Depression**.
 - Trump's recent trade actions **did not** provoke a similar global response.
- However, many affected countries refrained from raising their own import duties, following the **beggar-thy-neighbour** policy.
 - Beggar-thy-neighbour** policy is protectionist economic strategies to improve its own economy at the expense of other nations.

Strategic Motives Behind the Tariffs

- Reciprocity and Trade Deficit Reduction:** USA has long criticized what it sees as unfair trade practices by US partners, including India, which he labeled the 'Tariff King'.
 - The tariffs are **framed as 'reciprocal'**, aiming **to match or exceed the duties** imposed by other countries on US goods.
 - The broader goal is **to narrow America's trade deficit**, especially with countries like **India, China, and Brazil**.
- Pressure Tactics for Bilateral Trade Deals:** The US is using tariffs as leverage to push countries into bilateral trade agreements that favor American interests.
 - US moves are seen as part of a broader effort to reshape global trade from multilateralism to transactional bilateralism.
- Geopolitical Signaling:** The US is asserting its geopolitical stance and pressuring allies to align with its foreign policy by penalizing countries that maintain energy or defense ties with Russia.
- Domestic Political Messaging:** The tariffs serve as a domestic political tool, **reinforcing Trump's 'America First'** narrative and appealing to voters concerned about job losses and manufacturing decline.
- Strategic Realignment of Global Supply Chains:** The US is encouraging companies to shift supply chains away from China and other adversarial economies, with India caught in the crossfire due to its mixed strategic alignment.
 - Tariffs are being used to incentivize reshoring and reduce dependence on foreign suppliers in critical sectors like electronics, pharmaceuticals, and defense.

Global Response & Impacts

- The **World Trade Organization (WTO)** has warned that these tariffs could lead to a 1.5% contraction in global merchandise trade in 2025.

- ♦ The WTO's dispute settlement mechanism remains dysfunctional, leaving countries with limited recourse to challenge US actions.
- Some countries, including South Korea and the EU, have signed deals to lock in lower tariff rates and commit to U.S. investments.
 - ♦ **India** has called the tariffs '**unfair and unjustified**', but has not retaliated.
- **Economic Fallout:** Global supply chains are being reconfigured, with disruptions in sectors like pharmaceuticals, electronics, and agriculture.
 - ♦ The S&P 500 saw a sharp decline, losing over \$5 trillion in market value in just days.
 - ♦ The IMF and WTO have revised global growth forecasts downward.

Strategic Silence: Why the World Isn't Panicking?

- **Fear of Escalation:** Retaliation risks further tariff hikes and potential exclusion from the US market.
 - ♦ Many countries have made concessions, such as lowering tariffs on US goods or reforming domestic regulations, to avoid confrontation.
- **WTO Paralysis:** WTO's Dispute Settlement Mechanism is effectively defunct due to the U.S. blocking judge appointments since 2019.
 - ♦ It means countries cannot enforce rulings against the US, undermining the global trade rulebook.
- **Economic Warning Signs:** The IMF projects global growth to fall to 2.8% in 2025, down from 3.3%.
 - ♦ The WTO warns that merchandise trade could shrink by 0.2%, nearly three percentage points lower than it would have been without recent policy shifts.
 - ♦ Services trade is also expected to grow 4% slower than initial forecasts.
- **Geopolitical Dependence:** Many of America's traditional allies in **Europe and Asia** rely on the **US for security**.
 - ♦ NATO, for instance, has long allowed EU countries to prioritize welfare spending over defense. Trump's push for higher NATO spending (2% of GDP, rising to 5% by 2035) heightened awareness of this dependency.
- **Deep Integration of Global Supply Chains:** Today's trade networks are **interdependent**, unlike the early 20th century. Many nations understand that raising import tariffs would increase costs for domestic consumers; disrupt access to foreign inputs; and weaken competitiveness of local firms.
 - ♦ As a result, **economic pragmatism** appears to have prevailed over **mercantilist retaliation**.
- **Legacy of Globalization:** The post-1991 global order, after the **collapse of the Soviet Union** and the rise of **free-market capitalism**, has fostered widespread prosperity through **liberalized trade**.
 - ♦ Nations like **China** emerged as major beneficiaries, integrating deeply into global markets.
 - ♦ Even if institutions like the **WTO** are imperfect, they have helped moderate trade tensions.

Conclusion

- The world avoided a **repeat of 1930s-style protectionism**, despite Trump's disruptive tactics. The absence of broad retaliation reflects a **mature understanding of mutual gains from trade**, even in geopolitically fraught times.

Source: Live Mint

Mains Practice Question

- Q.** Discuss the reasons why the recent escalation in global trade tensions, particularly due to aggressive US tariffs, has not triggered widespread alarm. Evaluate the strategic responses of affected countries.

