

Trade wars

Part of the problem facing the world economy and assisting the global manufacturing recession is the outbreak of tariff and trade wars.

The largest is in the headlines regularly as China and the USA battle out a new basis for trade between them. There are others. There is the South Korea/Japan trade war over historic conflicts and grievances. There is the interruption to trade created in Kashmir by the clash between Pakistan and India. There are the tariffs the US has imposed on the EU following the adverse finding over Airbus subsidies. There is the US attempt to get Iran to change her approach to Middle Eastern politics by imposing a wide range of sanctions on trade with Iran, and now seeking to prevent payments for exports to Iran through the western banking system.

None of these is helpful to world growth, jobs and output. Many of them individually are not significant in their impact on the world economy, but cumulatively they are now having a measurable impact. More importantly they are also damaging confidence, which leads to cancelled investment programmes, less demand and a further slowdown in economic activity.

The US has escalated its dispute with China to include criticisms of China's approach to the Hong Kong protests, and to encompass bans on the sale of US items to Chinese technology firms. The US is critical of China's approach to intellectual property and concerned about the potential use of certain technologies for strategic and political purposes.

The UK's recent tweaking of its proposed tariff schedule for post Brexit trade is a welcome example of an attempt to go the other way. Tariffs will be removed from certain items altogether, so 88% of our trade is tariff free once out of the EU. Economic analysis suggests removing all tariffs would boost consumers more and would benefit the economy over all but would come at a potentially high cost to sectors at risk, mainly in agriculture.

The government has sought to find a balance, offering some tariff protection to UK farmers but otherwise opting for a freer system. It is a pity the world as a whole cannot move on from this period of tariff wars, which are adding more downward pressures on growth to the monetary policy and economic policy mistakes of the major players.