

The art of dealing with Donald Trump's tariffs

Countries must not create permanent distortions for temporary relief

After more than a year of what has largely been a phoney war over trade, the Trump administration has got down to business. An announcement of global tariffs against steel and aluminium exports, ostensibly on national security grounds, was followed by threats of action against China for violations of intellectual property rights.

For the other big economies — most obviously China and the EU, but also key trading countries and allies like South Korea — this has set a high-stakes exercise in economic diplomacy. When dealing with an administration run by someone as mercurial as Mr Trump, the temptation is to give him what he wants, or at least something he can sell as a victory, in return for relief from the tariffs, and hope he moves on.

There is much to be said for such a tactical approach. But making permanent concessions for temporary respite is not only a dangerous route to go down; a managerial short-term view of the situation in fact makes it more likely to recur.

South Korea, the US's third-biggest source of steel imports, has perhaps gone the furthest in bargaining for relief from Mr Trump. Seoul has agreed to rewrite part of the bilateral trade deal with the US that came into force in 2012 by expanding an import quota for American cars and giving the US an extra 20 years to phase-in cuts in truck tariffs. Separately, it has promised to restrain its steel exports to 70 per cent of their recent levels.

The first two concessions are relatively harmless: the US does not even fill its existing car quotas. But the steel provision, which takes the world back to the "voluntary export restraints" of the 1980s, could have more damaging repercussions. For one, such restrictions are illegal under World Trade Organization rules agreed in the 1990s, and threaten to set off a broader trade conflict. Second, for a big steel exporter voluntarily to eschew one of its main markets simply means there will be more cheap Korean steel washing round, creating tension elsewhere.

In other words, when countries are trying to escape Mr Trump's tariffs, they should be careful not to do anything that is likely to undermine what remains of the global trading order. They should also be aware that concessions made in a binding trade deal are hard to undo. South Korea may have bought itself a permanent exemption from the current set of steel and aluminium tariffs, but there is no guarantee Mr Trump will not simply come back in a few months' time with a fresh excuse and new restrictions.

It would be very short-sighted for Canada and Mexico to give in to US demands and significantly weaken Nafta, particularly provisions relating to the bloc's world-class auto supply chain, just to win exemptions on tariffs on basic commodities like steel. Similarly, while the EU should always be ready to talk trade with the US, the likelihood that a constructive transatlantic dialogue can restart under these circumstances is minimal.

For economies the size of the EU and China, whatever symbolic individual concessions they feel necessary to make, their main response should be global. If they act among themselves on steel or wider trade liberalisation, the US could be encouraged to join in. The decision of the remaining nations in the Trans-Pacific Partnership to push ahead with the pact even after Mr Trump pulled out has shown the way.

No one should pretend that dealing with such irrational threats made on illogical bases is easy. But governments need to be careful not to make damaging and distorting concessions for the long term simply to get the immediate problem off the table.