

TARIFFS, BARRIERS, TRADE WAR. WORSE FOR EVERYONE..

Posted on 14/04/2025 by Naider

The fall of the Berlin Wall and the end of the Cold War triggered the intense process of globalisation that characterised the world economy in the late 20th century and especially in the first quarter of the 21st century, which is now drawing to a close.

Trump's return to power and the implementation of a trade policy characterised by a massive increase in tariffs clearly point to the beginning of a new era. In the short term, it seems clear that the global economy will grow less than expected, adding to an already complicated macroeconomic situation driven by the large and growing political uncertainty that is now multiplying. It is not unreasonable to think that the trade crisis will be followed by a financial crisis and the global economy will enter a recession, which is what the stock markets have been discounting in real time in recent days.

The final outcome will depend on how serious and aggressive the trade war between the countries ends up being: China has already announced a 50% increase on the 34% it had previously set, and the EU is preparing to respond to the increase in steel and aluminium tariffs imposed by the United States, calling for negotiations without ruling out serious additional countermeasures.

The collapse of the stock markets and the certain risk of a fatal financial crisis have forced the Trump administration to back down from its indiscriminate trade policy, postponing the entry into force of the announced tariffs for 90 days (only the reciprocal tariffs of the so-called liberalisation day) and giving way to possible bilateral negotiations. The exception is China, a country with which a very tough trade war seems to be on the cards.

The episode is very reminiscent of what happened to Liz Truss in the United Kingdom, and in this case we will see how the Republican Party and other powers react, because the consequences of the lack of planning and the gross mistakes made have (and will have) very serious social and economic consequences for the population, who, let us not forget, are the ones who vote in a democracy; L.H. Summers estimates that the tariffs already imposed will cost around \$2,000 for the middle class alone.

For the Basque Country, the situation is very delicate. The tariffs come on top of a complex situation triggered by the Great Depression of 2008, followed by the economic slowdown caused by the severe COVID 19 pandemic, and continuing with the war in Ukraine, which has meant growing geopolitical uncertainty, high and volatile energy costs and inflation that is not yet fully under control. All these factors have had a particular impact on the industrial value chains of vehicle production, energy production and mechanical engineering, which are the driving forces of the Basque economy as a whole, and which are also undergoing radical structural changes to adapt to technological change, the advent of advanced digitalisation and the energy transition.

In any case, the impact of the tariffs on the Basque economy will not be limited, as some sources suggest, to the sectors exposed to the American market, which are few and represent a small percentage of foreign sales (around 6.5%). The impact will undoubtedly be felt throughout the economy and will undoubtedly be much more significant.

Initially, the sectors affected will be those that sell their products directly to the US market, which will suffer either a lower margin (they will include the tariff in their margin and sell at the same price), which will be difficult to sustain in the long term, or a fall in demand, or both at the same time.

But this initial effect spreads very quickly, because the fall in demand on the American market automatically generates an oversupply on the world markets, which leads to greater competition, lower prices for placing surpluses and lower margins for everyone. This also applies to Basque exporters, of which there are many.

In addition to these effects, there will also be those on the import side, which will depend on Europe's response and trade barriers to the American provocation, which is limited at the moment. However, risks may arise from disruptions in global supply chains or increased competition in the European single market.

Indeed, the impact of tariffs on the economy is comparable to that of a negative supply shock, such as the oil crisis of the 1970s, whose effects are well studied and analysed by economists: depression. Inflation and social hardship.

Whatever the final extent of the trade war that has been unleashed, which we hope can be redirected or mitigated in some way, there is no doubt that world trade is moving towards a new paradigm. The universal benefits of globalisation, almost universally proclaimed until recently, are no longer convincing. Certainly not the 'anti-globalisation' groups, but also a large part of American society itself, which feels that globalisation has taken away much of its industrial base and many good jobs, leaving many communities and areas without a clear future.

But they are also unconvincing in Europe and other advanced countries, which see their environmental policies and their social, labour and citizen protection systems being turned into weapons against their own companies, which have to compete with those from other countries that do not play by the same rules and can therefore sell more cheaply.

In the medium to long term, therefore, a very plausible scenario is a reordering of world trade value chains. This will be driven by digitalisation, technological change and the energy transition itself, but also by the increasing trade barriers that will be erected around the world. What will this look like? We do not know exactly, but it will clearly be a very different world.

Under the new conditions, countries and regions will have to change their strategies and regulatory regimes and coordinate their policies as a whole, moving beyond laissez-faire and unbridled defence of competition to promote balanced and sustainable economic development. Companies will also have to rethink their entire strategies, market, technology, people and business model in order to remain competitive, taking into account prices, profit margins and available resources (capital, technology and talent) that will result from the new international chessboard.

This new scenario does not necessarily have to be particularly negative for the Basque Country: public institutions are committed to maintaining and strengthening the industrial fabric with active policies (advice, subsidies and financial instruments) and a rich support ecosystem in the fields of cooperation, investment, technology, innovation and human talent. For their part, Basque companies are competing well in global markets and are committed to adapting to the changes already underway. In the short term, however, there is no choice but to weather the storm and hope that it does not last long, because the risks of bankruptcy and difficulties for many companies will be very high.

The commitment and efforts of all parties will be essential to overcome this possible tortuous path. That of businesses, of course, but also that of public administrations. It is in this latter area that the

European Union will have to play a leading role. It is essential that Europe relaxes its fiscal rules to give states and regions more room for manoeuvre to increase public spending to support businesses and counter the imbalances that are already emerging. Hopefully, the example of the pandemic will serve to facilitate effective fiscal policies for the difficult times ahead.

Illustration: Google DeepMind

