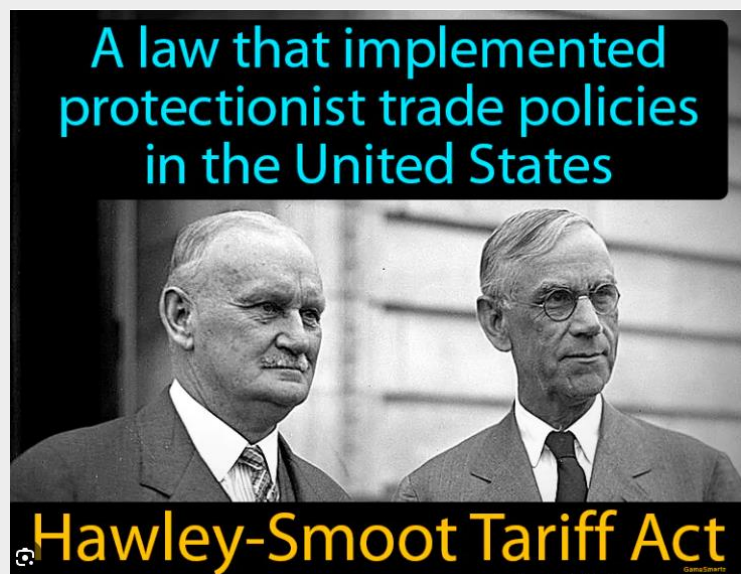


1. Recalling the Smoot-Hawley Tariff Act, which worsened the Great Depression**Why in News?**

President Donald Trump's tariff announcements have prompted a comparison with the Great Depression-era Smoot-Hawley Tariff Act, which ended up worsening the crisis it intended to resolve.

US tariffs have approached levels not seen since the Smoot-Hawley Tariff Act of 1930, which incited a global trade war and deepened the Great Depression.

**Smoot-Hawley Act**

In 1930, Congress passed a bill sponsored by Senator Reed Smoot and Willis Hawley to raise import duties on 20,000 goods to protect American farmers and businesses. President Herbert Hoover signed this into law. The Act placed aggressive tariffs on roughly 25% of all imported goods to the US.

Hoover, a Republican, had emerged victorious in 1928, having campaigned on agricultural protectionism. The tariff act was originally mooted to protect the American agricultural lobby, which thrived during World War I on the back of increased foreign demand, but now found itself battling debts and low commodity prices amid a glut of produce.

Catastrophic trade war

The Act spurred a trade war. Major trading partners, including Canada and Europe, retaliated with boycotts, quotas, and their own tariffs on American goods. American exports to retaliating nations fell by 28-32%. The Act jeopardised recovery efforts of countries trying to emerge from the impacts of World War I and the Great Depression.

Smoot-Hawley came to be seen as exemplifying "beggar-thy-neighbour" policies. "Beggar thy neighbor" refers to economic policies a country uses to benefit itself at the expense of its trading partners, often through protectionist measures like tariffs or currency devaluation, potentially harming global trade.

Reversal of Tariffs

In 1934, President Franklin D Roosevelt signed the Reciprocal Trade Agreements Act, which transferred the authority for tariff policy from Congress to the White House. This allowed the President to pursue bilateral trade agreements and quickly repeal the tariffs.

Relevance: GS Prelims & Mains Paper III; Economics
Source: Indian Express

2. How did the US calculate reciprocal tariffs?

Why in News?



Leaving aside the wisdom of slapping every country in the world with "reciprocal tariffs", there are now growing concerns about the methodology that the United States used to arrive at country wise tariff rates.

When Donald Trump first spoke about reciprocal tariffs, his idea was fairly straightforward: the US would simply levy the same tariffs on imports from a particular country as the tariffs levied by that country on imports from the

US. This is not how the US has actually gone about things.

So, how has the US calculated reciprocal tariffs?

The very first statement of the US Trade Representative memo on this calculation states the following: "Reciprocal tariffs are calculated as the tariff rate necessary to balance bilateral trade deficits between the US and each of our trading partners."

This is fundamentally different from saying that the US will impose tariffs that will equal the other country's tariffs. Instead, what the US seemingly wants from these tariffs is to raise them to a level where the trade balances out — it is not as concerned with the actual level of tariffs imposed against it but with using tariffs to wipe out its trade deficit.

Example of India

For instance, India has a trade surplus of around \$46 billion with the US. As such, the governing principle for the US while deciding the rate of reciprocal tariff against India is not to find what India charges but to raise tariffs to a level such that India's exports to the US get neutralised completely.

In other words, at 27% (which is the reciprocal tariff rate chosen for India), the US believes India's trade surplus against the US will be wiped out completely. On paper at least, this will happen because the 27% tariff on Indian exports will make them too costly for US consumers, who, in turn, will decide to not import those goods from India.

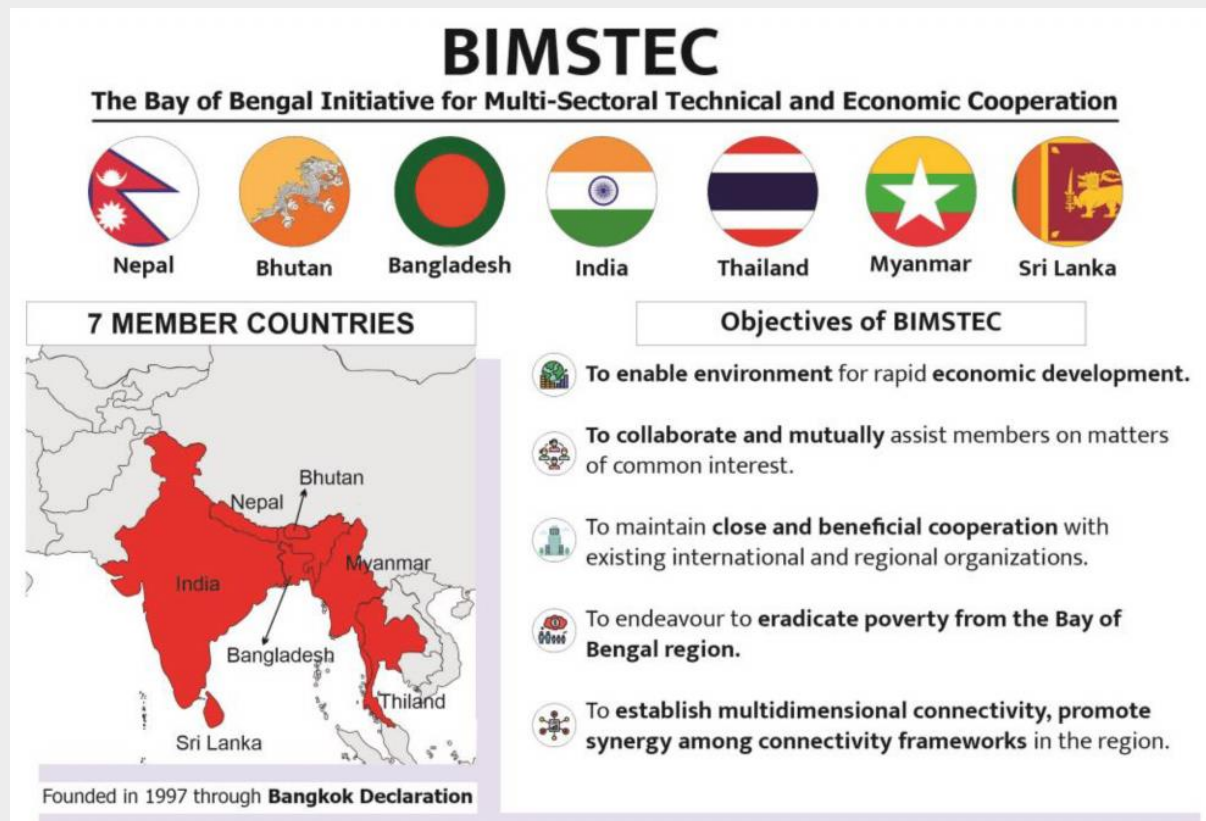
Relevance: GS Prelims & Mains Paper III; Economics
Source: Indian Express

3. BIMSTEC

Why Now?

External Affairs Minister S Jaishankar addressed the ministerial meeting of the seven-member Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) on April 3 in Bangkok, Thailand.

Prime Minister Narendra Modi will later oversee the signing of the Agreement on Maritime Cooperation at the 6th BIMSTEC summit, along with other members of the grouping.



WHAT IS BIMSTEC?

BIMSTEC includes countries of the Bay of Bengal region and seeks to act as a bridge between South and Southeast Asia. Originally formed as BIST-EC (Bangladesh, India, Sri Lanka and Thailand Economic Cooperation) in 1997, it became BIMST-EC after Myanmar joined, and BIMSTEC in 2004 with Nepal and Bhutan.

WHAT IS THE AIM BEHIND BIMSTEC?

For one, it provides a common platform for countries in South Asia and Southeast Asia at a time when the SAARC is more or less defunct. While the Association of Southeast Asian Nations (ASEAN) is seen as one of more cohesive groupings in the world, the lack of forward movement in the fraught India-Pakistan relationship has left few options for South Asian countries. Landlocked countries, Nepal and Bhutan, may also benefit from access to the Bay of Bengal as a result of better ties with BIMSTEC countries.

China is another key part of the equation. It has undertaken a massive drive to finance and build infrastructure in South and Southeast Asia through the Belt and Road Initiative (BRI) in the last decade, in almost all BIMSTEC countries except Bhutan and India.

BIMSTEC could allow India to push a constructive agenda to counter Chinese investments, and the Bay of Bengal can be showcased as open and peaceful, contrasting with China's behaviour in the South China Sea.

Challenges

But there are challenges. Ongoing tensions between Bangladesh and Myanmar, and tensions between India and Bangladesh following Sheikh Hasina's ouster, have hampered the cooperation among nations. With the ongoing civil war in Myanmar, the country's potential as a land bridge between South and Southeast Asia is also diminished. Though the grouping may not see major breakthroughs soon, "unlike SAARC, which never truly sailed, BIMSTEC is a slow boat advancing toward greater engagement".

Relevance: GS Prelims & Mains Paper II; International Organisations

Source: Indian Express

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