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Abstract

Strategic Devaluation, Trade and Political Convenience

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The economies of developed countries have, since 2007, experienced the most significant and persistent period of economic malaise since the 1930s. Domestic economic policies have failed to revive sustained economic growth and, as a result, unemployment remains at levels that voters find difficult to accept. In addition, without tax revenue-enhancing growth, government deficits persist, and borrowing to finance the cumulative deficits has become increasingly difficult for some countries. With domestic policies largely exhausted, but economic growth elusive, policy makers have been considering external policies as a means to stimulate their economies. Trade protectionism and strategic devaluation are potential policies. The lessons of the 1930s regarding the dangers of *beggar thy neighbour protectionism* appear to retain their currency with policy makers, but the same may not be true for strategic devaluation. The article outlines the likely poor efficacy of strategic devaluation as a politically convenient mechanism to escape the current economic malaise.

Keywords: cooperative solution, Great Depression, retaliation, strategic devaluation, trade