

No one wins: on the US-China trade war

The trade wars have finally begun. After exchanging several threats over the last few months, both the [United States and China implemented a tariff of 25% on imports](#) worth \$34 billion last Friday. This marks the official beginning of what China dubs as “the biggest trade war in economic history”. While this trade war is far from the biggest the world has seen, it has the potential to cause some significant damage to the world economy. U.S. President Donald Trump, who began the year by imposing tariffs on imported solar panels and washing machines, has vowed to possibly tax all Chinese imports into the U.S., which last year added up to a little over \$500 billion. Mr. Trump’s tariffs against China will likely resonate with voters who believe in his “America First” campaign and perceive the trade deficit with China as a loss to the U.S. economy. China, not surprisingly, has responded by targeting American exports like soybean and automobiles, a move that could cause job losses in American states that accommodate Mr. Trump’s voter base. Other major U.S. trading partners such as the European Union, Mexico, and Canada have also slapped retaliatory tariffs on various U.S. goods.

A vicious cycle: on trade wars

In a globalised world, no country can hope to impose tariffs without affecting its own economic interests. Apart from disadvantaging its consumers, who will have to pay higher prices for certain goods, tariffs will also disrupt the supply chain of producers who rely on foreign imports. So both the U.S. and China, which have blamed each other for the ongoing trade war, are doing no good to their own economic fortunes by engaging in this tit-for-tat tariff battle. The minutes of the U.S. Federal Reserve June policy meeting show that economic uncertainty due to the trade war is already affecting private investment in the U.S., with many investors deciding to scale back or delay their investment plans. China, which is fighting an economic slowdown, will be equally affected. The ongoing trade war also threatens the rules-based global trade order which has managed to amicably handle trade disputes between countries for decades. It could also isolate the U.S., which has refused to settle differences through serious negotiations, as other global economies strike trade deals on their own. In March, for instance, 11 Asia-Pacific countries went ahead to sign a trans-Pacific trade deal while leaving out the U.S., which had pulled out of the Trans-Pacific Partnership in early 2017. If global trade tensions continue to simmer, however, it may not be too long before countries resort to other destructive measures such as devaluing their currencies to support domestic exporters. The world economy, which is on a slow path to recovery, can do without such unnecessary shocks.

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