

U.S.-CHINA TRADE WAR MAY REDUCE GLOBAL GROWTH RATE

Relevant for: International Relations | Topic: World Trade, WTO and issues involved

The ongoing U.S.-China trade war escalation could knock off 0.4 percentage points from world GDP growth by 2020, and possibly lead to the lowest growth since 2009, according to Fitch Ratings.

“The imposition by the U.S. of 25% tariffs on the remaining \$300 billion of imports from China would reduce world economic output by 0.4 percentage points in 2020,” Fitch Ratings said in a report. “Global GDP growth would slow to 2.7% this year and 2.4% next year, compared with our latest ‘Global Economic Outlook’ baseline forecasts of 2.8% and 2.7% respectively.

China’s growth rate is expected to be reduced by 0.6 percentage points, and U.S. growth by 0.4 percentage points in 2020.

Import tariffs

Fitch has assumed a scenario in which the U.S. imposes import tariffs at 25% on \$300 billion of goods from China and China retaliates by imposing a 25% tariff on \$20 billion of U.S. imports untouched by the trade war so far, and by raising the tariff rate on \$100 billion of U.S. imports already subject to new tariffs to 50%.

“For China and the U.S., the tariffs would initially feed through to lower export volumes and higher import prices, with the latter raising firms’ costs and reducing real wages,” the report said. “Business confidence and equity prices would also be dampened, further weighing on business investment and reducing consumption through a wealth effect.”

The negative growth effects from lower export demand would be magnified on upstream supplier industries and from lower incomes in the export sector, Fitch added.

These effects are expected to spill over to other trading partners not directly targeted by the tariffs. “Global growth would fall even allowing for the monetary policy easing response,” Fitch said. “While falling short of a global recession, this would be the weakest global growth rate since 2009 and slightly worse than 2012, when the Eurozone sovereign debt crisis was at its peak.”

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