

A FRAUGHT MOMENT: U.S.-CHINA TRADE WAR

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

The [U.S.-China trade war has flared up again](#) after a deceptive lull over the last few months, when both sides were trying to negotiate a deal. Out of nowhere, President Donald Trump tweeted that he would raise the 10% tariff imposed on \$200-billion worth of Chinese goods to 25%, starting Friday. That the Trump administration pressed ahead with the increase even as China's Vice Premier Liu He was still in Washington for a second day of talks with U.S. trade officials only underscores the businessman-turned-President's 'take no prisoners' approach to negotiations. China promptly promised retaliatory action, but was yet to spell out the measures. With Mr. Trump tweeting that "the process has begun to place additional tariffs at 25% on the remaining" Chinese goods worth \$325 billion, the U.S. administration unambiguously signalled it was not going to be the first to blink. The latest revival in tensions between the world's two largest economies elevates the risk of a global trade war to its highest level since the first signs emerged in 2018. The increase in tariffs imposed on goods crossing international borders essentially represents a new tax on a global economy already facing a slowdown. Last month, the International Monetary Fund trimmed its projection for global growth in 2019 to 3.3%, from a 3.5% forecast made in January, citing slowing momentum in "70% of the world economy". IMF Chief Economist Gita Gopinath had at the time projected a pick-up in global growth momentum in the second half, predicated substantially on the "improved" outlook for U.S.-China trade tensions.

IMF chief Christine Lagarde and Ms. Gopinath, however, presciently warned that the world economy was poised at "a delicate moment". Were tensions in trade policy to flare up again, it could result in large disruptions to global supply chains and pose downside risks to global growth, the IMF warned. Barely a month later, the world economy faces the very real risk of an escalation in this trade war where other countries, including India, can largely only wait and watch as the U.S. and China raise the pitch. While the U.S. may have genuine concerns about Chinese protectionism, the overall economic logic behind Mr. Trump's trade policy still remains weak. The cost of these tariffs will, after all, eventually be borne by American consumers and could result in U.S. job losses too as the import of Chinese parts become uneconomical for smaller businesses. Indian policymakers would do well to closely monitor how the latest escalation in trade tensions pans out for global demand and international energy prices, given that the RBI has flagged oil price volatility as a factor that would have a bearing on India's inflation outlook.

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