Implications of a Trade War

What is the issue?

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- U.S.-China trade war is already ranging in full swing.
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- Unless compromises are reached, there are likely implications for the entire world economy.
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How is the Trade War taking shape?

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- After exchanging several threats lately, both the United States and China have now implemented a tariff of 25% on imports worth $34 billion.
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- 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.
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- Significantly, Chinese imports to the U.S. are valued over $500 billion per annum and U.S. President Trump has vowed to tax all Chinese imports soon.
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- Trump has already imposed tariffs on imported solar panels and washing machines, and is moving swiftly into other domains.
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- These moves against China will likely resonate with voters who perceive the trade deficit with China as a loss to the U.S. economy.
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- Not surprisingly, China has responded by targeting American exports like soybean and automobiles, a move that could cause job losses in the U.S.
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- It is to be noted that U.S. has also imposed some tariffs on its other trading partners like European Union, Mexico, and Canada – who've also retaliated.

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How does the future look?

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- **Specific Perspective -** In a globalised world, no country can hope to impose tariffs without affecting its own economic interests.
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- Such hike in tariffs will make goods costlier for domestic customers and also affect producers who are dependent on international supplies.
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- U.S. Federal Reserve has stated that economic uncertainty due to the trade war is already affecting private investment in the U.S.
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- The entire episode could also isolate the U.S., which has refused to settle differences through serious negotiations.
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- Notably, 11 Asia-Pacific countries went ahead to sign a trans-Pacific trade deal while leaving out the U.S., was an indication of this possibility.
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- China is fighting an economic slowdown, and its problem of debt and unsold inventories are likely to worsen if tensions escalate.
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- **Larger Implications -** The current U.S. initiated trade war is contagious and can catch up to other countries (or trading blocs) too.
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- It is a threat to the rules-based global trade order which has amicably handled trade disputes between countries for decades.
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- If these tensions prolong, countries may resort to destructive measures such as devaluing their currencies to support domestic exporters.
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- The world economy, which is on a slow path to recovery since the 2008 financial crisis can ill afford such unnecessary shocks.
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Source: The Hindu

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