Potential US-China Trade War

What is the issue?

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- The US and China are announcing tariff hikes on a range of each other's import products.
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- The retaliatory measures are potential of taking shape as US-China trade war.
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What is the US decision?

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- The US announced a proposed list of products imported from China that could be subject to additional tariffs.
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- It announced a possible 25% tariff amounting to $50 billion on around 1300 Chinese imports.
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- The sectors include industries such as aerospace, information and communication technology, robotics, and machinery.
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- After completion of the review process, the final determination on the products subject to the additional duties will be issued.
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What is the rationale?

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- China has its “Made in China 2025” industrial promotion policy in place.
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- The unfair intellectual property and technology transfer practices under it

are said to cause harm to the US economy.
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- They allegedly coerce US companies into transferring technology and intellectual property to domestic Chinese enterprises.
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- The proposed list of products is thus based on an extensive inter-agency economic analysis of the harm.
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- The measure thus targets products that benefit from China’s industrial plans while minimizing the impact on the US economy.
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- Also, the issue of US's trade gap with China is highlighted as a reason.
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- U.S. is not ready to afford to have a $500 billion a year trade deficit with Beijing.
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What will the implication be?

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- The US administration is right to take measures against China’s abuse of economic and trade policy.
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- But imposing tariffs on producer goods will inadvertently hurt Americans.
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- The tariffs could hurt companies by raising prices.
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- It could result in reduced capital investment and lower productivity growth.
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- It could also reduce consumption of the capital equipment they rely on to produce their goods and services.
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- Hitting Chinese manufactures in high-technology sectors could also hurt U.S. businesses that have plants in China.
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- Notably, China has low labour and manufacturing costs.
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What is desired?

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- Attempts to roll back Chinese innovation mercantilism should be more carefully targeted than this.
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- The focus should be on things that will create the most leverage over China.
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- But it should be without raising prices and dampening investment in the kinds of machinery, equipment, and other technology.
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- This is because machinery and technology are the ones that drive innovation and productivity across the economy.
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What is China's response?

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- Beijing earlier imposed tariffs on 128 US imports worth $3 billion.
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- This came as retaliation against US's taxes on imported steel and aluminium. (Click here to know more)
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- Recently, China announced plans to levy an additional 25% tariff on imports of 106 US products.
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- This is a clear response to U.S.'s recent announcement of 25% tariff on some Chinese imports.
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- China’s retaliatory tariffs include on products such as soybean, whisky, orange juice, chemicals, aircraft, cars, etc.
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- This would hit the U.S. as 60% of U.S. soybean exports go to China.
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- The tariffs imposed by China are expected to hit $50 billion of trade in all, similar in value to Chinese goods targeted by the US.
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Source: The Hindu

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