



Trade War: Set to Become a Reality

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With US tariffs on \$34 billion worth of Chinese goods taking effect, a global trade war is increasingly turning from talk to reality.

- According to the US President, the measures are aimed at levelling the playing field for American companies, which he says will become more competitive.
- The US has already imposed import duties - 25% on steel and 10% on aluminium imports and is eyeing a levy on car shipments from the European Union.

Setting in of Trade War

- China has announced it will respond in kind on the same schedule as the US while the US President has countered with a threat to progressively increase US penalties up to a total of \$450 billion in goods (the lion's share of all of China's exports to the United States).
- Head of the International Monetary Fund, Christine Lagarde, has warned the tit-for-tat cycle of retaliation would create "losers on both sides."

Impact of the Trade War

- The fear is that a prolonged battle would disrupt makers and importers of affected goods in a blow to global trade, investment and growth.
- The potential damage to the US and global economies from aggressive trade policies that evolve into protectionism, would raise prices and upend global supply chains.
- The dispute has upset global financial markets including stocks, currencies and the global trade of commodities in recent weeks.
- A China central bank adviser said the planned U.S. import tariffs will cut China's economic growth by 0.2 percentage points.
- Further, Chinese shares, which have fallen in the run-up to the tariff deadline, slipped further and pulled Asian markets down, while the yuan currency also weakened.

- The tariffs will also hit many American and foreign companies operating in China and disrupt their supplies of components and assembly work - foreign companies accounted for 59% of the \$34 billion of exports from China that would be subject to new U.S. tariffs.
- Moreover, unilateral trade measures by the US threaten a slow erosion of the global rules-based trading system.

Impact on India

- While the US steel and aluminium import levies do not harm India grievously, the effects will be felt elsewhere.
- Intermediate goods that originate in the US and form part of the global supply chain will become more expensive and could slow down wheels of trade.
- Moreover, the retaliatory spiral could lead to a breakdown in the global rules-based trading system and raise the risk of an all-out trade war – adversely impacting India’s export growth momentum.