



Upping the ante

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Highlights

- The rules-based world order for international trade appears to be in for a rougher ride yet after the administration of U.S. President Donald Trump announced this week that it would be slapping \$200-billion worth of Chinese exports with 10% tariff, ratcheting it up to 25% by the year-end.
- In the latest round of the ongoing trade skirmishes between the world's two largest economies, almost 6,000 items will be hit by the new U.S. tariffs, from September 24 onward.
- On both sides of the tariff war, economic pain is likely to be widely distributed.

Trajectory of the Conflict

- Economists concur that in the near term the trade war will cause a shrinkage in bilateral trade volumes.
- Businesses in the U.S., China and nations with close trade and investment links to the two countries, such as those in Europe, will find themselves in considerable economic trouble.
- Over the longer term, a reversal of the globalisation of supply chains may take place — perhaps that is the very aim of the Trump administration.
- However, the U.S. could have gone about this by applying its resources through bodies such as the World Trade Organisation to penalise China for overproduction, dumping overseas and excessive restrictions on market access.

Impact of Trade war on Future World

- China, and indeed any other nation that trades with the U.S., may seek alternative markets and trading partners if the American government persists with its retreat into economic isolationism.
- Yet, even if countries can avoid some of the punitive costs of this battle, global institutions such as the WTO and a myriad other multilateral rule-making bodies will wither away, losing their authority.
- Philosophically, this would fly in the face of the foundational economic principles regarding division of labour and comparative advantage.
- This would, in the much-longer term, be a loss for the world community of nations, many of whom have worked hard to establish and credentialise the post-World War order precisely in order to stave off the dark forces of parochialism that engendered the horrors of that period.