



1. US-China trade war leading to global recession, says Goldman Sachs

- What is a global recession?
- How do the trade tensions between the two biggest economies of the world escalated further in recent days?
- How do higher tariffs affect growth?
- How can India and the rest of the world be impacted by US-China trade war?

GS paper 2 (Effect of policies and politics of developing and developed countries on India's interests, Indian diaspora)

Date: 14 August, 2019



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In this video, you can find detailed answers for all the above questions.

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Anil Sasi. (2019, August, 13). Explained: The US-China trade war, and its impact on India. Indian Express. Retrieved from

<https://indianexpress.com/article/explained/simply-put-the-us-china-trade-war-trump-tariffs-5724261/>



What is the context about?



Researchers at Morgan Stanley, a leading investment bank, have alerted that if US and China continue to heap increasing tariff and non-tariff barriers over the next four to six months, the global economic growth rate to fall to a seven-year low of 2.8 per cent.



The worst scenario, the world economy could enter a recession within the next three quarters (that is, 9 months).



The last massive downward spiral in the global economy happened in the wake of the great financial crisis of 2008 and continued till 2010.



What is a global recession?



In an economy, a recession happens when output declines for two successive quarters (that is, six months).



However, for a global recession, institutions such as the International Monetary Fund tend to look at more than just a weakness in the economic growth rate; instead, they look at a widespread impact in terms of the impact on employment or demand for oil etc.



The long-term global growth average is 3.5 per cent. The recession threshold is 2.5 per cent.

How do the trade tensions between the two biggest economies of the world escalated further in recent days?



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On August 1, trade tensions between the two biggest economies of the world escalated further when the US announced that it would impose 10 per cent tariff on imports from China. These measures are to come in to effect on September 1. In retaliation, China threatened to take countermeasures.



The US has also declared China a “currency manipulator”. In other words, the US accuses China of deliberately weakening the yuan to make Chinese exports to the US more attractive and undercut the effect of increased tariffs that the US is employing.



The renewed trade tensions threaten to derail the already struggling global economy.



How do higher tariffs affect growth?



According to Morgan Stanley, two-thirds of the goods being lined up for increased tariffs are consumer goods.



Higher tariffs are not only likely to douse demand but, most crucially, hit business confidence. The apprehension is that the latest US tariffs and similar countermeasures by China could start a negative cycle wherein businesses do not feel confident to invest more, given the lower demand for consumer goods.




Reduced capital investment would reflect in fewer jobs, which, in turn, will show up in reduced wages and eventually lower aggregate demand in the world.

How can India and the rest of the world be impacted by US-China trade war?



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The US manufacturers are setting up their bases in India, in addition to already existent bases in China. This will provide them an alternative source for export of their products to deal with such trade wars like situations. For India, this will be beneficial as it would create more jobs for us.



There is a possibility that China could soon start flooding excess steel and aluminium into India's market after this raised tariffs on Chinese products by US. Besides the steel sector, products in other sectors like mobile phones, refrigerators, washing machines, ACs, water purifiers, and possibly electric vehicles will now see increased investment flow directed towards India.



The Indian consumers will get the products at a cheaper rate but the domestic producers of India will have to compete with the Chinese imports or else face loss.

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With this increased tariffs on Chinese products by the US, the Indian producers will get an opportunity to fill this generated gap and penetrate in the US market. This will increase their trade and profit.



Besides this, there will be a short-term impact on the stock markets. The benchmark Sensex at the Bombay Stock Exchange has been falling in line with global markets that have been spooked by the escalating trade war between the US and China.