



CURRENT AFFAIRS



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“CHINA HAS OPTIONS IF CHINA-EUROPE TRADE-WAR COULD OCCUR.”

THIS ARTICLE COVERS “DAILY CURRENT AFFAIRS” AND THE TOPIC DETAILS OF “CHINA HAS OPTIONS IF A CHINA-EUROPE TRADE WAR COULD OCCUR.” THIS TOPIC IS RELEVANT TO THE “ECONOMICS” SECTION OF THE UPSC—CSE EXAM.

WHY IN THE NEWS?

With Europe’s recent tariffs on electric cars manufactured in China, there’s anticipation regarding potential repercussions. The fear looms over the possibility of an intensifying trade conflict, which could lead to increased consumer costs and detrimental impacts on exporters and their workforce on both ends. Considering the significant market interdependence between China, a burgeoning economy boasting over 1 billion inhabitants, and Europe, home to a comparatively substantial population of over 400 million, the stakes are high for both parties involved.

MORE ABOUT THE NEWS:

- China intends to file complaints with the **World Trade Organization** to address what it perceives as unjust practices. Earlier this year, China initiated an anti-dumping investigation targeting European brandy exports, including renowned French cognac, following France’s support for the European Union’s inquiry, which led to the recent imposition of tariffs on electric vehicles. Concurrently, the EU is probing subsidies granted to Chinese renewable energy companies and potential market access restrictions in the medical device sector.
- In response, Chinese companies are reportedly contemplating petitioning the government to initiate anti-dumping investigations into select EU pork products and scrutinising subsidies for specific dairy items. Concerns have been raised that the EU’s tariffs on Chinese electric vehicles might exacerbate trade tensions, with accusations that the European Union’s actions are fostering a trend towards **protectionism, nationalism, and isolationism**.
- In anticipation of potential retaliatory measures, China could levy tariffs on luxury goods, cosmetics, wine, chocolate, or furniture from France and Italy. Germany is apprehensive about potential repercussions targeting its automotive and chemical industries, whereas France and Italy have advocated for tariffs on electric vehicles within the EU.

- Notably, it's projected that five out of six models from BYD, China's largest electric vehicle manufacturer, would remain profitable even with a 30% tariff. In contrast, a Chinese-made Tesla Model 3 would incur losses.

WHAT IS A TRADE WAR?

- A trade war is a situation when countries **impose tariffs, trade barriers, or other restrictions** on each other's imports and exports in an attempt to gain economic advantages or retaliate against perceived **unfair trade practices**. These actions can escalate tensions between nations and have far-reaching consequences for global trade, businesses, and economies.
- Trade wars often begin with one country **implementing tariffs or trade restrictions on certain goods or industries**, prompting retaliatory measures from affected trading partners. This **tit-for-tat escalation** can lead to a cycle of increasing trade barriers, which may **result in higher consumer prices, reduced market access for businesses, disrupted supply chains, and overall economic uncertainty**.
- Governments may engage in trade wars **for various reasons, including protecting domestic industries, addressing trade imbalances, or responding to perceived unfair trade practices** such as intellectual property theft or currency manipulation. However, the **detrimental effect** of the trade war on all parties can be seen in the long-term impacts of trade wars, leading to decreased international cooperation, diminished economic growth, and potential geopolitical tensions.

SEVERAL CHALLENGES ARE POSED BY THE TRADE WAR BETWEEN CHINA AND THE EUROPEAN UNION (EU) AT THE GLOBAL LEVEL:

- **Disruption of Global Supply Chains:** A China-EU trade war could disrupt global supply chains, particularly in industries like electronics, electric vehicles, and renewable energy, where the two economies are deeply integrated. This could lead to supply shortages, price increases, and disruptions for businesses and consumers worldwide.
- **Threat to Global Economic Growth:** Increased tariffs, retaliatory measures, and uncertainty would likely reduce trade, investment, and consumer confidence, impacting the global economy.
- **The undermining of the Multilateral Trade System:** A protracted trade war could further undermine the rules-based order under the World Trade Organization (WTO). This could lead to more countries adopting protectionist policies, fragmenting global trade and investment flows.
- **Geopolitical Tensions:** The trade dispute could exacerbate geopolitical tensions between China and the European Union, potentially spilling over into other areas like technology, security, and human rights.
- **Retaliation and Escalation:** If the trade war escalates, both sides may resort to retaliatory measures, such as imposing tariffs on a wider range of products or restricting market access. This could lead to a cycle of retaliation and further escalation, causing significant harm to businesses and consumers on both sides.

- **Impact on Developing Countries:** A China-EU trade war could also negatively affect developing countries integrated into global supply chains or relying on trade with either China or the EU. These countries may face reduced export opportunities, lower commodity prices, and reduced investment flows.

WAY FORWARD:

- **Diversify Supply Chains:** Companies should diversify their supply chains by selecting multiple suppliers from different regions to reduce dependence on a single country and mitigate the impact of tariffs.
- **Strategic Sourcing:** Implement strategic sourcing strategies prioritising cost savings, efficiency, and risk mitigation. This includes negotiating long-term contracts, volume discounts, and rebates.
- **Cooperation and Competition:** Encourage cooperation and competition between multinational companies to prevent decoupling and promote economic growth. This involves finding mutually beneficial solutions and fostering a spirit of cooperation.
- **Reciprocity and Market Access:** Ensure China adopts measures to guarantee reciprocity and market access for EU businesses. This includes increasing the volume of EU exports to China and reducing tariffs on EU goods.
- **Negotiations and Diplomacy:** Engage in diplomatic efforts to resolve trade disputes through negotiations and agreements. This includes addressing **intellectual property rights, tariffs, and market access**.
- **Global Economic Cooperation:** Foster global economic cooperation by promoting international agreements and organisations like the World Trade Organization (WTO) to establish a rules-based trading system and reduce the likelihood of trade wars.
- **Avoid Protectionism:** Avoid protectionist measures like tariffs and instead promote free trade and open markets. This helps maintain global economic stability and reduces the risk of retaliatory measures.
- **Economic Stimulus Packages:** Implement economic stimulus packages to minimise the impact of trade wars on businesses and consumers by supporting industries affected by tariffs and promoting economic growth through infrastructure development.

PRELIMS BASED QUESTION:

Q. What following impacts can be observed during the trade war?

1. Increase in exports.
2. Expansion of all domestic industries.
3. Increase in the price of imported goods.

Which of the following statement/s is/are correct/s?

A. 1, 2 only

B. 2,3 only

C. 3 only

D. All of the above.

ANSWER: C

MAINS BASED QUESTION:

Q. The cloud of the Trade War has been engulfing the more integrated economic world and ignoring the rule-based trade practices recommended by the WTO. Critically Analyse.

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