

# A trade war with no ally zone

[Business](#), [Industries](#)



Aside from China, trade relations between the US and its major allies – notably the European Union – have turned sour recently, with Washington also choosing to enforce its protectionist stance across the Atlantic Ocean. In May, the US levied taxes on steel and aluminium imports from the EU, Canada and Mexico. The EU, in turn, imposed retaliatory taxes on a range of US products, including bourbon whiskey, motorcycles and orange juice. Mexico and Canada have also announced retaliatory measures. However, there are suggestions that the US tariffs on European steel and aluminium are expected to have negligible impact on the EU economy as exports of these metals to the US only account for less than 0.3% (sourced from BBC) of EU's total exports. In the same vein, EU retaliatory tariffs on the selected US goods will not materially impact the US economy as the affected goods only account for 0.1% (sourced from BBC) of US total exports. Notwithstanding, the targeted industries could be hurt and demand could suffer as a result of higher prices.

### **Trade uncertainties cast shadow on bright global outlook**

The uncertainties that hover around simmering trade war have steadily been dampening sentiments across the globe. Germany's central bank (the Bundesbank) has slashed the growth forecast for Germany by a half percentage point to 2%; Bloomberg revealing that Chinese firms have reneged on \$2.5 billion debt so far year this year indicates that China may already be slowing; emerging markets are coming under pressure and the IMF is sounding the alarm. The global economy, which commenced the year on a broad upswing, could significantly underperform the IMF growth projection of 3.9% in FY'18, amid spreading trade tensions.

**Investors flee emerging markets for juicier US rates**

There are worries that the US rate hike might further strain economic growth outlook in emerging markets. In H1'18, currencies of emerging markets were suppressed amid continual exit of offshore investors. Correspondingly, treasury yields climbed higher in developing economies as their sovereign instruments were dumped for greener rates in the US. Emerging markets are bracing for another round of selloffs in the coming months as the US Fed has signalled two more rate hikes would occur before the year runs out. While a number of central banks in developing economies have shrugged off the impact of the US rate hikes, a few have resorted to rate tightening in a bid to save their dwindling currencies. Notably, India, Indonesia, and Turkey have taken steps to defend their currencies by raising their rates in June. The rate tightening in these countries could pare down their economic growth, and consequently result to slower global growth.