# WTO warns escalating US-China trade tensions could cut £6 trillion from global economy



The World Trade Organisation (WTO) has issued a stark warning about the escalating trade tensions between the United States and China, suggesting that the ongoing conflict could slash approximately £6 trillion from the global economy and potentially trigger a severe recession. This forecast signals a dire outlook for global economic growth, highlighting the significant risks posed by worsening trade relations between the two largest economies in the world.

Speaking yesterday, WTO director-general Ngozi Okonjo-Iweala emphasised the gravity of the situation, stating that a complete breakdown in trade relations between the US and China could result in the global economy being around 7 per cent smaller than it otherwise would have been. She described this contraction as both "significant and substantial." To put this in perspective, the projected reduction in economic output would be more than double the United Kingdom’s annual economic production.

The WTO’s warning comes amid a backdrop of persistent tariff impositions and retaliations between Washington and Beijing. The United States, under former President Donald Trump, has imposed a baseline tariff of 10 per cent on most goods entering the country, with additional duties on steel, cars, and threatened tariffs on pharmaceuticals. China has responded in kind with retaliatory tariffs of up to 125 per cent on US imports. While some levies have been paused or adjusted, there remains a substantial tariff burden affecting bilateral trade flows.

Okonjo-Iweala expressed particular concern about the risk of a "decoupling" of the US and Chinese economies, a scenario where the growing division could lead to broader fragmentation of the global economy along geopolitical lines, effectively splitting the world into isolated trade blocs. Under such circumstances, the long-term consequences could become deeply entrenched, affecting not only the two countries involved but the global economic landscape as a whole.

In its latest assessment, the WTO now projects global trade to decline by 0.2 per cent this year, a significant reversal from its previous expectation of a 3 per cent expansion as projected just last October. The organisation warned that if the full complement of tariffs were reinstated, the trade in goods could contract by as much as 1.5 per cent, representing the steepest decline since the disruptions caused by the COVID-19 pandemic in 2020.

The economic uncertainty generated by the trade conflict is also influencing monetary policy decisions elsewhere. Investors are speculating that the Bank of England may cut interest rates from the current 4.5 per cent to 4.25 per cent in response to recent inflation data indicating a fall to 2.6 per cent in March. However, this decline in inflation is believed to be temporary, with rising energy bills and taxes expected to push living costs up again. There is talk of further rate reductions potentially lowering interest rates to 3.5 per cent by Christmas, although some analysts forecast a slightly higher figure around 3.75 per cent by the end of 2025.

Meanwhile, in the United States, Federal Reserve chairman Jerome Powell has highlighted the "heightened uncertainty and downside risks" facing the economy due to trade policy concerns. Speaking about the US economic performance, Powell noted, "the economy slowed in the first quarter from last year’s solid pace," with a "sharp decline in sentiment...largely reflecting trade policy concerns." Despite the challenges, he described the economy as remaining "in a solid position." Powell indicated that the Federal Reserve would likely maintain interest rates at their current levels for the time being, opting to "wait for greater clarity before considering any adjustments," in light of the unpredictable trade situation.

The complex interplay of tariffs, retaliations, and broader geopolitical tensions poses considerable challenges for policymakers and market participants worldwide. The WTO’s report underscores the far-reaching economic consequences that could arise should the US-China trade dispute escalate to a full-blown schism, potentially reshaping the global economic outlook for years to come.

Source: [Noah Wire Services](https://www.noahwire.com)