

1. Why Trump blinked, and why the US tariff assault now seems targeted exclusively on China**90 day pause**

U.S. President Donald Trump abruptly backed down in his global trade war with a 90-day pause for most countries, but slapped even more levies against China in what has become a full-scale confrontation between the world's two largest economies.

Mr. Trump took the decision after more than 75 countries had reached out to

negotiate and did not retaliate against the United States.

So, Trump has paused tariffs on most nations for 90 days, including India, while raising tax on Chinese imports to 125 per cent. US Treasury Secretary Scott Bessent named India as among those willing to 'sit at the table rather than escalate'.

Baseline tariffs to stay

What has now been removed by the US is the varying country-by-country reciprocal tariffs that Trump had imposed recently. The 10 per cent tariff was the baseline rate for most nations that went into effect earlier. This is still in place, and likely to stay on.

Why punitive tariffs over China make sense?

There is a sense in Washington DC that China has gotten away with low cost manufacturing for too long. No other country has had the same level of global dominance across product categories since the early 1970s. This is more significant now than in earlier decades, when trade represented a much lower share of global goods production and consumption. For instance, the global trade-to-GDP ratio in 1970 was around 25 per cent, but by 2022, that climbed to over 60 per cent.

Weakening domestic demand, alongside export-facilitating policies in products, where China is the world's dominant manufacturer, has led to prices collapsing globally and driving other national producers out of business.

While the benefit of this has been a phase of sustained lower global inflation, China has simultaneously created a progressive stranglehold over global manufacturing: a level of manufacturing dominance by a single country seen only twice before in world history — by the UK at the start of the Industrial Revolution, and by the US just after the second World War.

Weak Domestic Demand

What makes China's extraordinary dominance in manufacturing worse is the continuing weakness in domestic demand in China. That too comes from the problem of China's unwillingness to vacate its earlier specialisation in low value-added manufactured products as it moved up the global value chain. This has concomitantly led to a weakness in Chinese demand for imported goods, which was expected to rise if China had ceded the manufacture of low value-added manufactured goods as it progressively moved up the value chain. So, more than Beijing's export competitiveness, weak Chinese imports explain this continuing imbalance. Trump has ostensibly set out to address this imbalance. So, while many might not agree with Trump's solution, it's difficult to wish away the problem he's wants to fix.

So, in that sense, Trump's tariff action has come full circle, back to the originally intended target – China. Trump had been waiting for a call from President Xi Jinping to discuss what can be done on tariffs and secondary issues such as the fate of Tik Tok. That phone call never came, even though sources attest to backchannel negotiations at lower levels.

The structural issues with the American economy

The US economy relies heavily on trade, and that's part of its structural construct in the post World War-II era. This is because the American economy consumes more goods than it produces domestically. As a result, its imports are almost always higher than its exports, resulting in a trade deficit.

Why is that so? When a country consumes more goods than it produces domestically, it needs to source the additional goods from other countries through imports. And that is resulting in a high trade deficit — the gap between what it buys from other countries and what it sells to them.

Harsh consequences for US consumers

The impact of even these 10 per cent tariffs is that prices go up sharply for the US consumer, who then curb spending. If the flip flop on tariff outlook continues, investors get jittery and the investment impetus slows due to these uncertainties. So aggregate growth in the US economy then slides, even as there is higher inflation and the Fed is not able to cut interest rates as much as it would have liked to. All of those things are bad for the American economy.

Relevance: GS Prelims & Mains Paper III; Economics

Source: Indian Express and The Hindu

2. Tahawwur Rana on way to face justice in India. What is the story of the extradition of this Mumbai 26/11 terror attack accused?

What is the story of Rana's arrest and the legal process that followed?

Rana is accused of aiding and abetting the reconnaissance for the 26/11 attacks carried out by David Coleman Headley, with whom he went to school in Pakistan, and of participating in the conspiracy.

This is his story, from 2009 onward.

* Rana was arrested in Chicago in October 2009 for his involvement in the 26/11 attacks, in which more than 180 people were killed. He was also accused of providing material support,

during 2008-09, to an attack planned by would-be Islamist terrorists on the Danish newspaper Jyllands Posten.

The Jyllands Posten plot was busted in December 2010, and the plotters, who had allegedly planned a "Mumbai-style" attack, were arrested. The Islamist militants had allegedly planned to punish the Copenhagen-based newspaper for having published cartoons depicting the Prophet in 2005.



* The US District Court for the Northern District of Illinois prosecuted Rana for conspiracy to provide material support to terrorism in India and Denmark, and to the Pakistan-based Lashkar-e-Taiba terrorist group.

The jury acquitted Rana of the charge of conspiring to provide material support to terrorism in India, but convicted him on the other two counts. On January 17, 2013, Rana was sentenced to 168 months (14 years) in prison.

* On June 9, 2020, Rana was released on compassionate grounds.

* But a day later, a Magistrate Judge in California, where Rana was serving his sentence, signed a provisional arrest warrant with a view to extraditing him to India based on an extradition request from December 2019. Rana opposed his extradition on the ground of "double jeopardy", a procedural defence that seeks protection from being tried again on same or similar charges after an acquittal or conviction has already taken place.

* On May 16, 2023, an extradition Magistrate Judge rejected Rana's arguments. Rana then petitioned the US District Court for the Central District of California for a writ of habeas corpus.

* This was rejected on August 10, 2023. Rana then appealed in the Court of Appeals for the Ninth Circuit. This too was rejected.

* Rana then filed a writ of certiorari in the US Supreme Court, which was rejected on January 21 this year.

* Finally, after Trump announced his extradition last month, Rana filed the emergency application in a last-ditch attempt to stay in the United States.

What is the India-US extradition treaty?

The treaty, which was signed in June 1997, established a legal framework for the extradition of individuals charged with or convicted of serious offences in either country.

An offence is extraditable if it is punishable by imprisonment for more than one year under the laws of both countries.

Political offences are not extraditable under the India-US treaty. However, certain actions such as the murder or other willful crime against a Head of State/ Government or a member of their family, aircraft hijacking and aviation sabotage, crimes against internationally protected persons, and hostage-taking, etc., are not construed as "political offences" under the treaty.

As of 2023, India had "extradition treaties" with 48 countries, and "extradition arrangements" with another 12.

How did the provisions of the treaty play out in Tahawwur Rana's case?

Following his provisional arrest in 2020, US authorities had submitted in court that Rana should be cleared for extradition to India as his offences and legal situation met all criteria required under the extradition treaty between the two countries.

They said there was "probable cause to believe that Rana committed the offences" of which he had been accused in India.

The US government submitted that it was not proceeding on Indian charges such as "membership of a terror organisation", "conspiracy to wage war", and "conspiracy to commit terrorist act" because they did not fulfil the criteria of "dual criminality".

However, "the dual-criminality requirement (of the extradition treaty) is met because the remaining charged offences are punishable in both India and the United States", the US said.

Rana claim of "double jeopardy" – arguing that India intended to prosecute him for the same offences of which he had been acquitted by the Chicago court – was rejected by the US Court of Appeals for the Ninth Circuit on the ground that the Indian charges had "elements" distinct from the charges under which he had been prosecuted, and eventually acquitted, by the Chicago court.

The court held that "India [had] provided sufficient competent evidence to support the magistrate judge's finding of probable cause that Rana committed the charged crimes."

Before Rana, have there been other extraditions to India from the US on charges of terrorism?

There have been only two extraditions of alleged terrorists from the US to India so far – alleged Khalistanis Charanjeet Singh Cheema and Kulbeer Singh Kulbeera alias Barapind in February 2005 and June 2006 respectively.

According to data provided by the Ministry of External Affairs to Parliament, the treaty facilitated the extradition of only 11 Indian fugitives from the US between 2002 and 2018.

One of these individuals was accused of the sexual abuse of children, another of attempt to murder. The rest were accused of financial fraud and cheating.

The government recently told Parliament that 65 requests for extradition remain pending with the US government.

Has the US ever rejected a request for extradition from India?

Yes, the US has rejected several requests for extradition from India, most importantly that of Rana's associate Headley.

The Lashkar operative who was born Daood Gilani was arrested along with Rana in October 2009. He was tried and sentenced by a US court for the killing of six Americans in the Mumbai attacks after he pleaded guilty to the charges. One of the key terms of his plea bargain was that he would not be extradited to India.

The US had earlier rejected India's request to extradite Warren Anderson, who was CEO of Union Carbide at the time of the 1984 Bhopal gas leak.

Anderson had been arrested by police in India, but he was soon given bail and allowed to leave the country.

Almost 20 years later, in May 2003, India sent a request for his extradition to the US, which was declined on the ground of insufficient evidence.

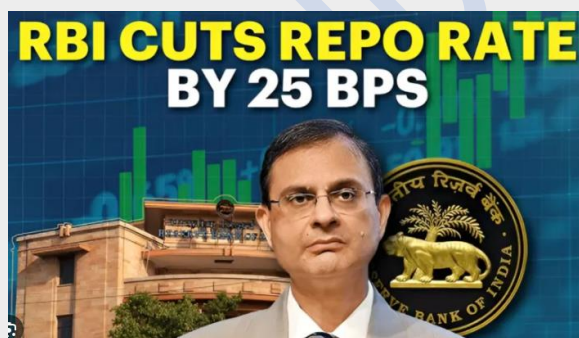
Relevance: GS Prelims & Mains Paper II; Bilateral Relations

Source: Indian Express

3. Cut in Repo Rate

Why now?

The Reserve Bank of India's (RBI's) six-member Monetary Policy Committee (MPC) recently decided to cut the repo rate by 25 basis points to 6%. The rate setting panel also changed the monetary policy stance from "neutral" to "accommodative", signaling further reductions in the repo rate in the near future.



reverse repo rate is at 3.35%.

What is repo rate?

The interest rate that the RBI charges when commercial banks borrow money from it is called the repo rate. The interest rate the central bank pays commercial banks when they park their excess cash is called the reverse repo rate.

Currently, the repo rate is at 6% whereas the

Why does the repo rate matter?

Using these two rates, the RBI sets the tone for all other interest rates in the banking system, and through that route, in the broader economy.

For instance, when the RBI wants to encourage economic activity in the economy, it reduces the repo rates. Doing this enables commercial banks to bring down the interest rates they

charge (on their loans) as well as the interest rate they pay on deposits. This, in turn, incentivises people to spend money, because keeping their savings in the bank now pays back a little less, and businesses are incentivised to take new loans for new investments because new loans now cost a little less as well.

On the other hand, when the RBI wants to control inflation, it increases the repo rate. Banks thus have to pay more interest to borrow from the RBI, which means they will charge more interest to their borrowers. At a macro level, this inhibits people from borrowing money as well as from spending, which in turn reduces the amount of money in the market, and thus negates inflation.

It is for this reason that the repo and reverse repo rates are often referred to as the "benchmark" interest rates in the economy.

Why has RBI reduced the repo rate?

RBI Governor Sanjay Malhotra said that the central bank is "more worried" about a sluggish economy than inflation at the moment.

The January-February inflation is tracking an average of 3.9%, below the RBI's quarterly projection for January-March 2025. The RBI has projected consumer price-based inflation (CPI) at 4.8% for the fourth quarter of the fiscal 2025.

Also, the central bank's decision comes amidst heightened global economic uncertainty in the face of the far reaching reciprocal tariffs announced by the Donald Trump administration in the US.

Relevance: GS Prelims & Mains Paper III; Economics

Source: The Hindu

[Join PrepMate IAS](#)

WhatsApp 'Name' and 'State' on 75979-00000 to receive daily current affairs in simple and concise language.