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Bank of England Chief: Rising Tariffs Threaten Global Stability

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The Governor of the Bank of England, Andrew Bailey, has warned that mounting tariff barriers could fracture the global economy and weaken trade flows. Speaking in a prepared address at the annual Financial and Professional Services Dinner at Mansion House, Bailey pointed to what he described as a generational shift in international commerce that could have lasting economic consequences.

In his remarks, Bailey argued that new tariffs and protectionist measures, similar to those implemented during former President Donald Trump's administration, are undermining the established system of global trade. He said these policies risk creating persistent divisions among nations and intensifying current account imbalances, which track a country's transactions with the rest of the world. According to the Governor, these imbalances are typically expected to adjust naturally if the global economic framework functions effectively.

Bailey highlighted China and the United States as central examples of this trend. China's current account surplus amounts to 2.3 per cent of its gross domestic product (GDP), reflecting a pattern of high exports and limited domestic consumption. Bailey noted that this imbalance is partly driven by China's focus on investment-led growth and weaker social safety nets that discourage spending.

Conversely, the United States runs a current account deficit equal to 3.9 per cent of its national GDP, meaning it imports more than it exports. Bailey explained that robust U.S. productivity and sustained foreign investment have enabled the country to finance its deficit without triggering significant economic strain. This dynamic, he said, has prevented the usual self-correcting forces that might restore balance over time.

Bailey concluded that the growing use of tariffs, coupled with strategic competition between major economies, is placing unprecedented strain on global commerce. While he acknowledged that some level of rebalancing is possible, he cautioned that persistent trade barriers could deepen divisions and slow growth across multiple regions.