

NEW DELHI: Former RBI governor [Raghuram Rajan](#) on Tuesday expressed concern over escalation of [trade war](#)

between the US and China saying it would be a "lose-lose" situation if the two major economies carry out their threats. Rajan also cautioned that the situation can get "out of control very quickly" hampering global growth.

The [Trump administration](#)

's decision to impose tariffs on aluminium and steel imports had triggered a trade war with several countries including China, which announced retaliatory measures. "Well I think at this point the biggest risk is the combination of rising interest rates and some untoward action on trade. I think it's the perception that with all the leverage that's out there, interest rates rising are already an issue that we'll have to deal with, but that's out there. The great uncertainty is what happens with trade, if we have a trade conflagration in the next few months that could really hamper the global economy," said Rajan in an interview.

He further said that the key question is whether these bargaining ploys, threats of living tariffs et cetera result in real negotiation which create that win-win situation.

"Or do entities, do players get locked into positions which mean they eventually have to carry out their threats in which case we are in a lose-lose situation," Rajan said.

"The problem to some extent at this point is that people have put forward their offers in some sense and we have to see if they actually reach a negotiation point where they can back down. Some of these situations can get out of control very quickly," he added.

Rajan is a finance professor at the Chicago Booth School of Business.

Replying to a query on Shangri-La dialogue, where Prime Minister Narendra Modi stressed India and China must work together for better future, Rajan said there is benefit in New Delhi having a good relationship with Beijing and vice versa.