

## Trump's secret: What would count as a 'win' for him?

By reconciling with the EU, President Trump has taken everybody by surprise. The real surprise isn't so much his sudden friendliness, but the small price the EU has had to pay for it



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### Blowing hot and cold

Few people expected reconciliation with the European Union as the outcome of European Commission President Jean-Claude Juncker's visit to the Oval Office after the accusations and threats from President Trump in the weeks running up to the meeting. But how can it be that Trump switches from qualifying the EU as a "foe" to a beloved friend so quickly? The answer is simply that blowing hot and cold is part of his negotiation strategy. His accusations and especially his threats to impose tariffs scare US trade partners and make them willing to come to the negotiating table with concessions.

With the threat of tariffs on steel and aluminium, Trump has already succeeded in getting concessions from South Korea, Brazil and Argentina. But with the EU, this strategy wasn't really working until the Trump-Juncker summit. The EU took the principled stand that trade talks weren't possible as long as the US maintained higher tariffs on steel and aluminium. This stance was

stressed especially by the French, but Germany, who is more dependent on US demand, steered Juncker towards a more pragmatic approach aiming to avoid any further escalation of the tariff war.

## Low price to pay

Juncker has succeeded because Trump has indicated the US won't impose the tariffs on European cars as long as both parties are still at the negotiating table. For the time being, the price the EU has had to pay for that appears to be pretty low. Trump claimed Juncker's promises to import more soya beans and liquefied natural gas (LNG) from the US as a victory; however, these promises seem rather hollow. After all, the European Commission isn't in the business of buying soya beans or natural gas. Only users of gas and soybeans can make this promise come true, and they will only do that if the price is right.

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Not entirely coincidentally, but the prices of American soya beans have been falling due to the fall in Chinese demand. So market forces will increase EU imports of American soya beans without any costs for the EU.

But it'll be more difficult to deliver on the promise regarding more imports of American LNG. It is a long-cherished desire of the EU Commission to become less dependent on Russian gas, but American LNG is considerably more expensive, at least for the time being. In the longer run though, EU gas imports will increase because EU producers like the Netherlands will supply less in the years to come. If the US is prepared to wait, this promise doesn't lead to a cost to the EU either. So far so good for the EU.

## Don't relax just yet

The more substantial and most important result of Juncker's visit is the commitment to begin talks on lowering tariffs and non-tariff barriers for trade in industrial goods and services between the US and the EU. In essence, this comes down to the reopening the core of the Transatlantic Trade and Investment Partnership (TTIP) negotiations. If barriers to trade can be lowered, both the US and the EU will benefit economically.

But don't relax just yet. After all, there isn't a deal yet. And let's not forget Trump is only interested in a trade deal if it results in a 'win' for America. For Trump, this means a lower bilateral trade deficit with the EU and the EU Commission doesn't have much direct influence over that. In the meantime, the US continues its Section 232 investigation into the imports of cars and parts, so the risks of a resumption of hostilities are significant.

## Trump's secret

The chances of a trade war between the US and the EU being called off depend on the million dollar question: what is Trump's end goal? The problem is nobody really knows.

In the ongoing trade dispute with China, Trump has previously demanded a reduction of the trade deficit by half, i.e. \$200 billion within two years. The Chinese were prepared to commit to increasing imports by \$70 billion, but that offer was effectively turned down by the Trump administration when he pressed ahead with tariff increases in July.

Since the EU doesn't agree with Trump's view that trade with the US is unfair, concessions from Brussels that could lead to significant reductions of the EU trade surplus with the US are unlikely. The chances are President Trump will return to threatening the EU with tariffs on cars and/or other goods if the negotiations don't deliver results (fast enough) - results that he can present as a "win".

So the real challenge seems to be unraveling Trump's secret: what would count as a "win" for him?