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Trade: A turn for the better

A trade deal between the US and China is looking closer than ever, but the next few weeks will be far from easy for the negotiators on either side. But even if we get something soon, this won't really be the end – as President Trump recently confirmed our interpretation of his strategy – he can only secure new trade deals by imposing and threatening tariffs



Source: Shutterstock

Reports suggest a Trump-Xi summit could take place soon

A deal between the US and China is closer than ever and this was reason enough for President Trump to postpone imposing 25% tariffs on USD 200 billion worth of imports from China, which was due to happen on 2 March.

We have tweaked our base case and no longer expect an additional tariff hike on USD 200 billion of Chinese imports to occur

Given the ambitious demands from the US, it's certainly not a done deal yet, but given press reports on the progress made so far and the optimism that President Trump and Xi demonstrate, we are inclined to expect that a deal will be struck. There is no new deadline, but reports suggest that a Trump-Xi summit could take place at the end of March. The public

optimism of both presidents about the progress in negotiations has led us to tweak our base case. We no longer expect an additional tariff hike on USD 200 billion of Chinese imports to occur.

But the next few weeks won't be easy for negotiators

The next few weeks will not be easy for negotiators. Going by recent press reports, China seems willing to lower its trade surplus with the US by increasing imports. This could include stimulating car imports from the US by lowering import tariffs. China could also potentially open up its markets for automotive and financial services by allowing foreign companies to hold majority stakes in joint ventures with Chinese companies.

There is no sign of China scaling back its 2025 ambition to become a leader in tech markets

What's less clear is the sort of deal negotiators are aiming for when it comes to China's exchange rate policy. There is also no sign of whether a deal is possible on China scaling back its 2025 ambition to become a leader in tech markets. That said, China is offering to scale up protections for the intellectual property of foreign companies.

But the devil is in the detail here, and enforcement won't be easy. That's why US negotiators reportedly want to keep the possibility open of future tariffs on Chinese imports. If enforcement by China stalls, the 2018 tariff hikes on Chinese goods - which could potentially be abolished as part of a trade deal may be reintroduced. Alternatively, the abolition of existing tariffs could be made conditional on China making progress with enforcement.

A deal doesn't automatically mean an end of the trade war

The upshot is that a trade deal with China doesn't automatically mean that Trump's war on trade is over. And the threat of higher US car tariffs won't disappear. In a recent speech to US Governors, Trump confirmed our longstanding interpretation of his [strategy](#), saying that he can only secure new trade deals by imposing/threatening tariffs.

While not our base case, higher car tariffs remains a serious downside risk. These could easily materialise if the EU does not give enough ground on Trump's demands in the forthcoming negotiations.

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