

Trade: Glass half empty

For months now, market sentiment around a phase one US-China trade deal has flitted between optimism and pessimism. Last month, the optimistic mood prevailed but, as we warned back then, things appear to have changed direction



President Donald Trump shakes hands with Chinese President Xi Jinping during a meeting on the sidelines of the G-20 summit in Osaka, Japan

Source: Shutterstock

Still a lot to be done

The road from a cursory understanding to a concrete, detailed trade deal was always going to be a bumpy one. By splitting the negotiations into various phases, President Trump had already taken a step back in an effort to prove that he's tough on America's trading partners but also capable of cutting a deal with them which improves the terms of trade for the US.

Trump's problem, however, is that the phase one deal needs to have enough substance to be able to deflect accusations from Republican and Democratic congressmen that he's gone soft on China. China, on the other hand, seems to be standing firm on the red lines it has drawn.

Keeping promises

China's willingness to give in to President Trump, and perhaps even to trust what he says, was put to the test this week.

For China, the question is what it gets in return for any concessions. Trump could hold back from following through with the scheduled tariff hike in mid December, and maybe even unwind some of the tariff hikes of the last 18 months. But even if China succeeds in securing this, events this week have shown that [the value of a deal with Trump is often limited](#). The US announced that it would re-install tariff hikes on steel imports from Argentina and Brazil, even though Brazil has been living up to its end of a steel deal struck with the US last year.

Mexico experienced a similar turn of events in the summer when Trump, shortly after agreeing to a new free trade agreement with Mexico and Canada, threatened to reimpose tariffs on Mexico if it didn't take swift action to curb illegal immigration into the US.

A mini-deal is therefore no guarantee that tariff hikes are a thing for the past.