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A Turbulent Week for Trade

Unexpected White House trade announcements roiled investment markets and obscured America's path forward with some prominent partners.

By Andrew Soergel Senior Writer, Economics

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IT WAS ONLY WEDNESDAY morning, but President Donald Trump and members of his administration to start the week had already threatened action against France and the broader European Union, reneged on steel and aluminum tariff relief previously granted to Brazil and Argentina and appeared to cast doubt on the future of a partial U.S.-China trade deal – only for Trump to suggest a day later that discussions "are going very well."

A flurry of unexpected – and at times, contradictory – trade headlines and announcements from the White House gave way to seesawing investment markets, leaving a general sense of confusion obscuring America's path forward with several prominent trade partners.

"He thinks uncertainty is good. He thinks uncertainty gives him more leverage," says Bill Reinsch, the chair of international business at the Center for Strategic and International Studies and a senior adviser at Kelley, Drye & Warren LLP international law firm.

If uncertainty creates leverage, then seldom has the Trump administration stood on firmer ground, at least on the trade front, than it does now.

"So here we are, less than a year away from the 2020 election and the Trump administration is threatening a new round of tariffs against China, France, Argentina, Brazil, Austria, Germany, Italy, Turkey … to name a few," as **Bernard Baumohl, chief global economist at the Economic Outlook Group,** put it in a research note Tuesday.

Reinsch suggests the exhaustive week for trade news was at least partially the result of bad timing. Threats of tariffs on French cheese and wine, for example, stemmed from a U.S. Trade Representative investigation report into France's tax on digital services that would disproportionately hit American tech companies with a large web presence in the country. The results of that report were made public on Monday – which was coincidentally the same day Trump threatened duties on Argentina and Brazil, as well as one of several recent days in which tensions escalated between the U.S. and China over American support for pro-democracy protests in Hong Kong.

"I don't think there's some grand plan or strategy here or that they're all related to one another," Reinsch says. "Some are more explainable than others. And some make more sense than others."

Of greatest significance to international trade spectators was Trump's apparent efforts to tamp down expectations over a partial trade deal with China. The president on Tuesday told reporters that he has "no deadline" for a deal – despite administration officials consistently hinting that a finalized accord is right around the corner, regularly suggesting it would be signed by year's end and before a new round of tariffs are scheduled to hit Chinese exports in mid-December.

Commerce Secretary Wilbur Ross on Tuesday also acknowledged the deal may be further away than had previously been reported during an interview with CNBC, noting that the upcoming tariffs on China would likely go into effect "unless there's some real reason to postpone them."

"Where it once looked like a trade agreement between the U.S. and China was progressing, investors are seeing a different picture portrayed (this week)," Charlie Ripley, senior investment strategist at Allianz Investment Management, wrote in a research note Tuesday, suggesting that "the narrative on trade has quickly been turned upside down."

What's more, Trump indicated that he thinks "it's better to wait until after the election" in November 2020 to finalize a trade agreement. Ross later backed up the president's remarks, suggesting a delayed deal would strip negotiating power from Chinese officials who believe – some analysts would argue correctly – that a finalized accord would significantly bolster Trump's 2020 reelection bid.

The president appeared to partially walk back his remarks on Wednesday, suggesting talks with China were actually progressing. His remarks followed a Bloomberg report that cited officials close to the situation as saying discussions with China were going well.

But Trump and Ross separately acknowledged this week that the situation in Hong Kong – and Trump's infuriating Beijing by signing legislation supporting protesters there – isn't exactly helping the U.S. and China reach a trade agreement. The week ended with far less certainty than it began that the world's largest economies would resolve their trade dispute in relatively short order.

"I think Hong Kong will slow things down, because China has to react. But I don't think it alters the events on trade," Reinsch says. "Trump can't leave, because that would admit failure on a signature issue. And the Chinese can't leave, because that allows him to blame everything on them. And it opens the door to more tariffs, which they don't want."

Ross separately floated the possibility of introducing automotive tariffs on vehicles produced in the European Union – even though the administration missed a deadline for tariff implementation on European cars last month. Reinsch says the announcement was in some sense predictable, noting that it's "not in (Trump's) nature to sort of let anything go."

"Most people I know don't think that he'll ever end up actually doing the car tariffs, but I don't think he'll ever say 'We're not doing the car tariffs,'" he says.

But more concerning from a policy standpoint, Reinsch says, were the threats against Argentina and Brazil. Steel and aluminum products from the two South American nations had previously been granted a reprieve from Trump's international metal tariffs. But the president this week accused Argentina and Brazil of currency manipulation and said he would reintroduce the duties – though the announcement came from the president's Twitter account rather than a formal diplomatic channel, leaving international analysts and South American officials without a timeline or implementation specifics.

Shunko Rojas, Argentina's former undersecretary of international trade and a partner at Quipu Advisors, said during a call with reporters this week that the announcement caught officials in Argentina and Brazil off guard. He believes "it will be difficult" for the U.S. to justify its actions on the basis of currency manipulation, considering there is minimal evidence that either South American country has actively worked to devalue its currency.

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Reinsch, likewise, believes Trump may have had 2020 on his mind in announcing some of this week's trade shakeups – particularly as it relates to China. Reinsch says Trump and his team may be realizing that China is "not going to give him what he wants" and that he may have to resort to telling his base: "You have to reelect me, and I'll beat (China) over the head and go back and get a better agreement."

What that mentality says to international trade partners, however, is that the Trump administration may prioritize short-term political clout over long-term policy stability. And that doesn't bode particularly well for the growing collection of countries embroiled in trade disputes and negotiations with Trump's team.

"The message to other countries is: Why bother negotiate?" Reinsch says. "He's just going to do what he's going to do, and we'd save a lot of time by keeping our heads down and trying to stay out of the way."

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