

# The Summer of Discontent on Trade? Deadlines, Headlines and Escalation Catalysts

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Consistent with our thinking back in January 2018, trade has dominated the policy agenda in Washington and cast a pall over certain segments of the market. We continue to maintain that President Trump should be taken at his word regarding trade policy: While many may regard his trade views as just a political talking point developed on the 2016 campaign trail, President Trump has been remarkably consistent on trade policy for much of his public life (case in point: Watch his 1988 interview on the Oprah Winfrey Show!).

Given President Trump's deep-seated belief that the U.S. is getting shortchanged on trade, combined with the executive branch's enormous flexibility around trade policy and a staff (such as U.S. Trade Representative Bob Lighthizer) who largely shares his views, we do not see trade policy risk diminishing, at least in the foreseeable future. Indeed, with the number of potential catalysts in the next month or so, we could see it escalate.

What trade inflection points should investors be watching this summer?

- **June 12: North Korea summit in Singapore and the launch of the new office for the American Institute in Taiwan.** Conventional wisdom holds that the U.S. will not move forward with China tariffs until after the June 12 North Korea summit, although President Trump has shown an inclination for upending expectations. June 12 could also be meaningful for another reason: If the U.S. sends a secretary-level government official to the opening of the new office of the American Institute, the de facto American embassy in Taiwan, it could be viewed as a poke in China's eye and further escalate tensions.
- **June 15: The White House deadline for finalizing 25% tariffs on \$50 billion of Chinese goods, as part of the U.S. Section 301 investigation into China's use of American technology.** Based on the [broad category list](#) the White House provided back in March, the tariffs are designed to maximize pain on China as it relates to the country's [Made in China 2025 strategy](#), while minimizing pain on the U.S. consumer. While there was some hope that a mini-deal on the trade deficit could be reached and stave off these tariffs, a first round of tariffs on China looks increasingly likely and would almost surely lead to retaliation.
- **June 20: Europe to impose retaliatory tariffs on the U.S.** The EU has already released the list of U.S. goods on which it will impose tariffs, designed to maximize political pain (e.g., Wisconsin cranberries in House Speaker Paul Ryan's district, Kentucky whiskey in Majority Leader Mitch McConnell's district). According to folks in Washington, no détente seems imminent, and a tit-for-tat between the U.S. and the EU could only escalate already tense relations between the U.S. and some of its most significant allies.
- **June 22: Deadline for public comments on the U.S. Section 232 investigation into autos** This is the first in a series of deadlines this summer for the investigation into whether auto imports pose a national security risk and therefore should be subject to tariffs. If the administration finds in the affirmative, we can expect more retaliatory tariffs, especially from Europe and Japan.
- **June 30: White House restrictions on Chinese investment in the U.S. are expected to be announced** This could happen earlier, especially if there are no further discussions between China and the U.S., but June 30 is the deadline set by the White House.
- **Mid-to-end of June: NAFTA agreement (but don't hold your breath)** A NAFTA 2.0 agreement, even in principle, seems elusive now, especially after the decision to move forward with EU tariffs (though to be clear, even absent those tariffs, a deal was looking hard to come by). Given the deadlines under the [Trade Promotion Authority \(TPA\)](#), a firm NAFTA agreement likely needs to get to Congress by mid-to-late June to have a chance to be voted on in the lame duck session after the midterm elections. Without NAFTA 2.0, the risk of President Trump at least threatening to withdraw may increase.
- **July 1: Mexican presidential election** Many in D.C. view this as an implied hard deadline for a NAFTA 2.0 agreement in 2018, given that negotiations with a new government will likely entail some amount of resetting.
- **July 1: Canadian retaliatory tariffs expected** Look for tariffs on steel and aluminum, plus agriculture products.

**Bottom line:** Investors should be mindful of various inflection points on trade over the coming month. While a de-

escalation of tensions is possible, we see a greater risk for escalation, at least in the short term.

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