

President Trump Shaking World with the Iran Sanctions and Trade War

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On August 7, the United States revived the first tranche of its economic sanctions on Iran following its announcement to withdraw from the Joint Comprehensive Plan of Action (JCPOA), known as the Iran nuclear deal. On the previous day, U.S. President Donald Trump signed an executive order for the revival. The first batch of the Iran economic sanctions cover auto-related transactions, aluminum and precious metal trade and the purchase of U.S. banknotes. Businesses that conduct such transactions with Iran would be subjected to U.S. economic sanctions.

The second tranche of U.S. economic sanctions, which would be more damaging for Iran, is set to come on November 4, targeting the oil and energy sector vital to the Iranian economy. It is important for the United States to have actually taken the first step which can pave the way toward the more damaging sanctions.

On the same day, the Trump administration announced to invoke the second tranche of additional tariffs on Chinese products on August 23 over China's intellectual property infringement. The first tranche of such tariffs came on July 6, imposing 25% additional tariffs on 818 categories of Chinese products worth \$36 billion, including automobiles, industrial robots and electronic devices. Under the second tranche, Washington will levy additional 25% tariffs on 279 categories of Chinese products worth \$16 billion, including semiconductors, electronic devices and plastic products. China refused to back down, vowing to take a retaliatory measure of a similar magnitude. The U.S.-China trade war is escalating.

The Trump administration's Iran economic sanctions and trade war represent the largest factors shaking the international situation at present. The Iran economic sanctions have deepened the uncertainties and confusion of the Middle Eastern situation, destabilizing the international oil situation and crude oil prices. The economic sanctions caused a harsh Iranian reaction in which even moderate Iranian President Hassan Rouhani warned that the United States would regret threatening Iran. Economic and business deterioration under the U.S. economic sanctions and the Iranian rial's rapid depreciation could make the Iranian political situation more difficult, paving the way for hardliners to rise in Iran.

Regarding the oil and energy sector sanctions that would be the most significant and have great impacts, the Trump administration has asked major countries to cut oil imports from Iran to zero, representing a severer-than-expected situation. In response, Iran has mentioned the blockade of key

chokepoints including the Hormuz Strait, raising tensions in the Middle East.

While China, the largest crude oil importer from Iran, has indicated a plan to continue taking delivery of Iranian crude oil, how far Iranian crude oil exports would decline toward November's implementation of the second tranche of U.S. Iranian sanctions is still uncertain. Depending on the decline, the supply-demand balance in the international oil market could be seriously affected. Even if Saudi Arabia and some other countries increase oil production to cover the drop in Iranian exports, Saudi Arabia's surplus production capacity as a supply buffer may fall, leading the market to become vulnerable to growing geopolitical risks.

The Iran sanctions could widen the United States' rift with Europe willing to maintain the Iran nuclear deal. While U.S.-Europe tensions may grow over trade disputes as well as the Iran sanctions, a decline in U.S. and European influence or presence may add fuel to the Middle Eastern confusion. Russia and China could increase their influence on the Middle East in a manner to fill a power vacuum, complicating the Middle Eastern situation further.

U.S.-China trade war tensions have been growing on the exchange of retaliatory measures, indicating no sign of compromise toward a solution. On August 8, China's Commerce Ministry vowed to levy additional 25% tariffs on 333 categories of U.S. products worth \$16 billion from August 23 to counter the United States' second tranche of additional tariffs, demonstrating anew that China would not back down over the trade issue. The number of categories increased to 333 from 114 as announced by the Chinese government in June, with crude oil dropped from the original list of products subjected to the additional tariffs.

Such exchange of high tariffs could dampen the global economy, affecting both the U.S. and Chinese economies. Nevertheless, President Trump cannot put an end to the game of chicken reportedly because of this autumn's midterm congressional election in his country that has initiated the trade war. Given that the trade war and Iran economic sanctions are in line with commitments Trump made during his presidential election campaigns, he apparently gives priority to consolidating his supporters who contributed to his victory in the presidential election. He may have the next presidential election as well as the midterm election in mind. At least until the end of the midterm election, President Trump may remain unshaken, retaining his tough stance on the trade war and Iran economic sanctions.

The United States had been the protector of global order and the power for global stability. At present, however, U.S. actions have been central destabilizers amid changes in U.S. domestic and international situations, symbolized by the Iran economic sanctions and the trade war.

The global economy, the international oil market and crude oil prices will remain sensitive to these moves. On August 7 when news reports came on the revival of the first tranche of Iran economic sanctions, the key West Texas Intermediate crude oil futures price rose further to \$69.17 per barrel, approaching the \$70/bbl level. On August 8, however, the price plunged by \$2.23/bbl to \$66.94/bbl as the oil supply-demand balance was expected to loosen due to economic deterioration

amid the escalating trade war and an oil inventory report by the U.S. Energy Information Administration. The crude oil market is likely to remain nervous and volatile in response to U.S. moves. Moves of the United States and its Trump administration shaking international politics, the global economy and the energy situation will continue to attract much attention.

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