

## **World Shaken by Trump Administration's Hardline Anti-China/Iran Policy**

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As the U.S. Trump administration has come up with its hardline stance toward China and Iran since early May, international relations, the global economy and the geopolitical situation have grown tense and uncertain. On May 5, President Donald Trump announced to raise tariffs from 10% to 25% on Chinese imports worth \$200 billion on May 10, triggering tensions and uncertainties. The United States and China escalated their trade war throughout last year as China increased tariffs on U.S. imports to counter the United States' tariff hike for the reason of China's intellectual property infringement. In a bid to make a breakthrough, the two countries launched structural negotiation last December and have continued the negotiation to find compromise. They had initially planned to make the breakthrough in 90 days but extended the deadline until the end of April in consideration of progress in the negotiation.

As negotiation continued, President Trump made remarks indicating smooth talks and a possible excellent agreement. Until recently, it was believed that the two countries were moving toward a breakthrough. It was recognized that China made positive developments including a pledge to expand LNG and other imports from the United States and the enactment of a foreign trade law to prohibit the problematic requirement for foreign companies to transfer technologies. U.S. President Trump preparing for next year's presidential election and Chinese President Xi Jinping seeking to stabilize the domestic economy were viewed as willing to avoid economic deceleration or deterioration for their respective domestic reasons that were expected to drive them to make progress in the bilateral negotiation. Market players felt that global economic deceleration risks receded after once becoming a matter of serious concern.

However, the U.S. offer to raise tariffs on Chinese imports has greatly shaken the expectation and increased uncertainties about the future course of the global economy again. Behind the United States' shift to the hardline attitude, it is speculated that the United States has been growing discontent with China's retreat from a positive attitude on measures to solve such problems as industrial subsidies to state-run corporations. While the two countries continued bargaining to protect their respective national interests while pursuing some compromise, Washington might have concluded that Beijing's response was insufficient. Then, President Trump might have chosen to announce the tariff hike in a bid to press Beijing to make major concessions in future talks. The two countries were scheduled to hold ministerial talks in Washington from May 9. If the U.S. side concludes that no sufficient progress is made in the ministerial talks, it will raise the tariffs to 25% from May 10. The ministerial talks will thus attract global attention.

In response to Trump's offer of his hardline stance, the Shanghai stock market and the Chinese yuan plunged on May 6. After decelerating throughout last year, the Chinese economy saw the deceleration coming to a halt early this year. However, the U.S. action has triggered uncertainties about the future Chinese economy again. After a robust trend, the New York stock market also took a plunge. On May 7, the Dow Jones industrial average lost 473 points to 25,965, slipping below the

psychologically important level of 26,000. During the day, the stock index fell below 25,800 before rallying on buybacks, posting wild fluctuations. In response to the Dow Jones average's plunge, the 225-issue Nikkei average on the Tokyo market widened its loss to more than 400 points briefly on May 8, shaken by global economic risks. On May 7, the European Commission announced a downward revision to its economic growth projection for the European Union and the eurozone, indicating that the resurging U.S.-China trade risk was spilling over to the world.

In such situation, Beijing could harden its stance, making it difficult for both the United States and China to reach any easy compromise. The rest of the world will breathlessly watch the future course of their talks.

Meanwhile, the United States' hardline stance toward Iran has induced an Iranian reaction, heightening bilateral tensions. As is well known, Washington terminated its 180-day waivers on its Iran oil embargo for eight economies including Japan on May 1, seeking to make the oil embargo full. On May 3, the U.S. State Department exposed any involvement in transferring enriched uranium out of Iran to sanctions in an effort to enhance the Iran sanctions. The additional sanction could affect Iran's limited uranium enrichment that was admitted in the Iran nuclear deal. Furthermore, President Trump's National Security Adviser John Bolton stated on May 5 that the United States will send a carrier strike force, including the Abraham Lincoln nuclear-powered aircraft carrier, and bombers to the Middle East to counter and deter Iranian threats.

Such hardline U.S. stance enraged Iran. Hardliners in the country have threatened to blockade the Strait of Hormuz if Iranian crude oil exports decline substantially, irrespective of whether such action is realistic or not. They have also discouraged other major Middle Eastern oil producing countries from easily increasing production to expand their oil supply on a decline in Iranian oil exports and obtain parts of the Iranian market share. On May 8, Iranian President Hassan Rouhani offered to partially suspend the implementation of its obligations clarified in the Iran nuclear deal. Iran would temporarily suspend its external shipment of enriched uranium and heavy water in the nuclear deal and accumulate them within the country, while remaining in the deal, he said. He also offered to gradually enhance Iran's nuclear operations, indicating that Iran would step up negotiations with the United Kingdom, France, Germany, Russia and China, planning to retain the Iran nuclear deal, and would seek oil transactions with them and their support to overcome the impact of enhanced U.S. economic sanctions. However, whether such strategy would be successful or not is uncertain. This is because the five countries could raise opposition to the Iranian response and have difficulties in taking any easy action in the face of the United States' enhanced sanctions.

In reaction to the Iranian offer, Washington on May 8 issued an executive order to subject Iran's metal sector to the economic sanctions. In this way, the United States' enhancement of the sanctions has induced Iran's reaction and response that has led to a new U.S. retaliatory action. It is uncertain how such retaliation between the United States and Iran would develop. No one can predict how the situation would be stabilized or how the two countries would exit from the bilateral retaliation. Iran's reaction could encourage its domestic conservatives and hardliners to rise in a manner to further destabilize the geopolitical situation inside and outside Iran.

The United States' enhancement of its hardline stance toward China and Iran described above is feared to affect the geopolitical situation and the global economy, leading to uncertainties about the future course of the international energy situation. Crude oil prices as the barometer of the international energy market have become unstable. The key Brent crude oil futures price soared on Washington's offer on April 22 to terminate the waivers on the Iran oil embargo and hit the

year-to-date high of \$74.57 per barrel on April 24. Later, the price became stable as a decline in Iranian crude oil exports was expected to be covered by other oil producing countries' production expansion. On May 7, however, the price slipped below \$70/bbl for the first time in about one month on concern about the escalation of the U.S.-China trade war. On the next day, it rose back above the level to \$70.37/bbl in response to the new development regarding the Iranian situation. The price has thus demonstrated nervous moves in response to developments regarding China and Iran. The international energy situation represented by crude oil prices will continue to be shaken by international relations and the geopolitical situation involving such main players as the United States, China and Iran.

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