



China-US Trade Disputes (XV)

FUNG BUSINESS INTELLIGENCE

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Global Sourcing

7 November 2018

The US midterm elections: Implications for Trump's trade policy

The 2018 US midterm elections were held on Tuesday (6 November), with 35 out of the Senate's 100 seats and all 435 seats in the House of Representatives up for election.

Results of the 2018 US midterm elections

As widely expected, the Republican Party has maintained and expanded its majority in the Senate but lost control of the House of Representatives. The new Congress will convene in January 2019.

Currently, the Republicans hold a razor-thin majority in the Senate with 51 seats to 49 seats for the Democratic Party. The Republican majority is expected to expand to a 53-47 margin come next January (estimates based on the votes reported as of 4:30 am (US Eastern time) on 7 November).

The current House has 236 Republicans and 193 Democrats, with six vacant seats. The Democrats are expected to score a net gain of 36 seats to win back control of the House with a 229-206 margin (estimates based on the votes reported as of 4:30 am (US Eastern time) on 7 November).

Implications for Trump's trade policy

The outcome of the midterm elections on Tuesday would make Trump a lame duck in the sense that he cannot get through with his policy agenda at will. However, a major shift in Trump's trade policy is not likely in the near term, in our view.

I. Trade war with China

We expect the US trade war with China to continue despite the Republicans losing control of the House. First, the trade war is mainly an executive decision, as the US President is given the power to impose restrictions on foreign trade, including levying tariffs. Most importantly, there is a bipartisan support from both Republicans and Democrats for a tough stance against China, especially on trade, since China is generally seen as a villain hurting US workers through 'unfair' economic and trade practices.

That being said, Trump could come under pressure to moderate his hardline position on China. According to preliminary exit poll results of the midterm elections, just 25% of voters said Trump's trade policies have helped their local economy, while 31% said they have been hurt,¹ indicating Trump's trade war with China might have cost support for the Republicans among voters nationwide. If the China-US trade war does escalate into a full-fledged trade war, the public perception of Trump's trade policy is likely to worsen further, which will endanger Trump's chance in his re-election bid in 2020.

All in all, the China-US trade war is likely to continue but we do not expect an all-out trade war between the two countries.

II. USMCA

The United States–Mexico–Canada Agreement (USMCA) is likely to be signed by the three countries' leaders before the end of November. It is then expected to be ratified with little trouble by Canada and Mexico, although the latter warned that it will not ratify the deal if US tariffs on steel and aluminum remain.

The path to congressional approval of the USMCA is more complex in the US. With the Republicans controlling the Senate, the biggest uncertainty over the USMCA is its fate in the House, where the Democrats will hold a majority come next January. Trump could have a standoff with the House over the deal as Democrats would be reluctant to help Trump realize one of his key campaign promises, or they might try to gain concessions from Trump.

However, we still expect final passage of the trade deal next year. Trump has publicly stated his intent to withdraw from the North American Free Trade Agreement (NAFTA) if the Congress does not ratify the USMCA. This would leave the Congress with a choice – the USMCA or no free trade agreement and thus a cloud of trade uncertainty. Therefore, we expect that enough Democrats in the House will come along to pass the USMCA at last.

¹ <https://abcnews.go.com/Politics/election-2018-exit-poll-analysis-56-percent-country/story?id=59006586>

FUNG BUSINESS INTELLIGENCE

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