

## Dots &amp; Plots

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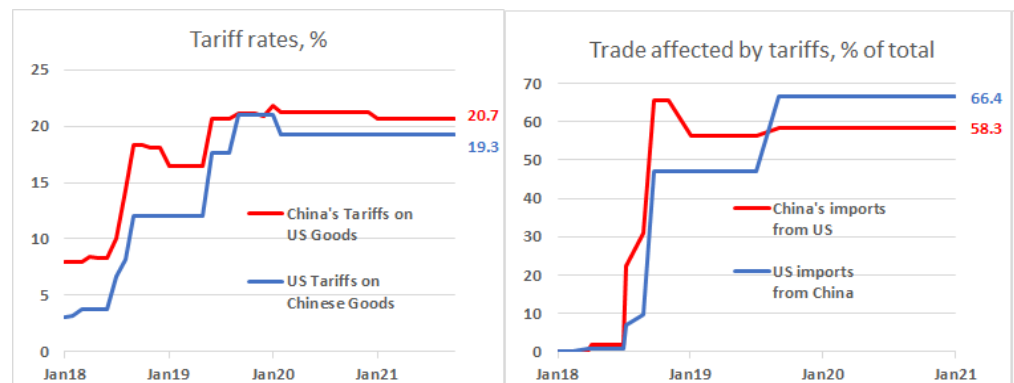
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## Tariff's Trajectory

### What if US and China reverse their retaliatory tariffs?

- At least they are talking. That seems to be the main expectation by global markets when it comes to any concrete outcome – or a lack thereof – from the ongoing online summit between Joe Biden and Xi Jinping. After months, if not years, of escalating tensions between the two, the very fact that the US and China have embarked on a dialogue at the highest level is a good thing in and of its own, even if it may well lead to no firm results right away.
- However, since the holiday season is just around the corner, let's put on a more optimistic hat and walk through what might just happen if both sides do decide – even if not immediately – to reduce the tariffs that they had slapped on each other since 2018 under the Trump administration.
- As it stands, the tariff rates imposed on either end are considerable. Going by the PIIE tally, China imposes an average tariff of 20.7% on US imports, versus 6.1% for goods coming from elsewhere. Meanwhile, although the Americans have a (slightly) lower tariff rate of 19.3% on Chinese goods, it is applicable on more items, comprising 66.4% of its imports from the country.
- While the Biden administration has kept the inherited tariff structure, there is a sense that it has done so to keep its negotiating leverage, rather than from a dogmatic standpoint. Moreover, its rising [domestic inflation pressure](#) – which is quickly becoming a sensitive political issue ahead of crucial midterms next year – may tip the balance. Already, two dozen [US business groups](#) recently urged Biden to remove tariffs to help ease price pressures.
- If such a breakthrough is coming, it will be a boon to global market sentiment due to a few factors. For one, even if the strategic rivalry between the two will not end just because tariffs are cut, it still nonetheless marks a material de-escalation in tensions that too often threaten to run hot.
- Moreover, while US domestic inflation has picked up due to unrelated factors including worker shortages and supply chain snags, a cut in tariffs can help to reduce the pinch for businesses and consumers alike. If the Fed can then postpone its rate hike even just a tad, that should cheer the market.



Source: OCBC, PIIE, Bloomberg.

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