

Trade and recession fears hit Wall Street

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Wall Street plunged on Tuesday, with the Dow falling by 800 points and all major indexes down significantly, as the purported trade deal between US President Trump and China's President Xi Jinping, announced on Saturday night, began to unravel.

However, the fear that nothing has been resolved in the trade war was by no means the only factor in the market sell-off, which followed a surge on Monday. A major issue was growing concern that the US could be entering a recession with yields on bonds falling, an indication that investors are seeking a "safe haven."

The growing negative sentiment over the outlook for the US economy was seen in a flattening of the yield curve—the difference between the interest rate on shorter and longer-term bonds. At one point, the difference between the yield on two-year and ten-year bonds was under 10 basis points, its lowest level for 11 years. A flattening yield curve is widely regarded as indicative of a recession.

The market slide went across the board with companies that are dependent on global markets, such as Caterpillar and Boeing incurring losses of 6.9 percent and 4.9 percent respectively. High-tech stocks sensitive to trade war fears, also fell, with Apple down 4.9 percent. The tech-heavy NASDAQ index dropped 3.8 per cent and is now more than 10 percent below its August high.

The S&P 500 index dropped by 3.2 percent and fell below its 200-day moving average, a key indicator of the market trend. Bank stocks were also down as, in the words of the *Wall Street Journal*, "investors' worries of a recession and the strength of the economy grew." An index of bank shares fell nearly 5 percent.

The doubts over the possibility of any agreement with China started from the top with tweets by Trump indicating he doubted whether anything had been achieved. He said his economic team would be "seeing whether or not a REAL deal with China is actually

possible" before the deadline on negotiations expires on March 1.

"If it is, we will get it done ... if not, remember, I am a tariff man," he wrote.

According to the US report of the talks, China agreed to talks on so-called "structural" changes in its economy in response to Washington's claim that it is engaging in the theft of intellectual property (IP) and using forced technology transfers to enhance its technological and industrial base. Failure to reach an agreement on this issue would see the US lift the tariff rate imposed on \$200 billion worth of Chinese goods from 10 percent to 25 percent.

But there has been no acknowledgement by China on whether negotiations on this key US demand have been agreed to. As the *Financial Times* commented, the claims by Washington have either not been supported by the Chinese side or are mired in confusion.

"Not only did this cast doubt on whether the two sides would be able to reach a comprehensive deal within the next three months, it raised the possibility of a collapse even before then," it stated.

Throughout yesterday, doubts were cast over the purported deal as the contrast between what the US said and the Chinese version of events became more apparent. In the wake of the meeting with Xi, Trump claimed that China had agreed to cut tariffs on US cars, but this was not mentioned in the statements from either side.

White House economic adviser Larry Kudlow insisted on Monday that such an agreement had been reached. However, he was then forced to back away yesterday saying while Washington did not have a "specific agreement," the tariff reduction was highly likely.

Kudlow was also corrected by the White House after saying that the 90-day deadline would start in January. The starting date is December 1.

The changing story on car tariffs, while important in itself, has broader significance as it casts doubt on what was actually agreed.

Agriculture is another area where the situation is, to say the least, unclear. The US said that there would be a “very substantial” increase in exports, but this was not reflected in Chinese statements on the talks.

Amid the confusion and conflicting accounts of what was and was not agreed in Saturday night’s meeting between Trump and Xi, the key issue remains the Chinese program of industrial and technological development under its “Made in China 2025” plan.

In a comment published in the *Financial Times* on Monday, former IMF economist and Bank of India governor Raghuram Rajan noted that the issues dividing the US and China go far beyond the question of trade. The strongest indication of the extent of the conflict was the speech by US Vice President Mike Pence in October “where he all but declared a new cold war.”

Rajan, one of the very few economists to warn of a financial bubble prior to 2008, said while it was “reasonable” for China to bring its intellectual property practices “in line with western norms,” the Chinese fear this is “not the ultimate US aim.”

“They believe that even if they comply, the US will not allow a significant presence in frontier industries including robotics, artificial intelligence and semi-conductors. That, to the Chinese smacks of a ceiling on development. It is simply non-negotiable.”

Rajan warned that simply piling tariffs on tariffs would lead to China becoming a country under siege, “precipitating a cold, even hot, war.”

He called for major powers to come together to negotiate changes in China’s IP practices. “But the quid pro quo has to be to recognise that the world is multi-polar, that China should have more power and responsibility in global institutions” and that a sensible deal “will require compromise on both sides,” he wrote.

However, the major obstacle for this would-be rational scenario is that the conflict is not governed by the laws of reason but by material economic and geopolitical interests. The US is not prepared either to recognise the need for a “multi-polar world” or to make concessions to China’s increased economic power. Washington fears this will undermine its global

economic and military dominance, which it is determined to maintain at all costs and by whatever means necessary.

This determination will assume even more belligerent forms under conditions of a significant downturn in the US economy or the development of a recession, the signs of which are growing.



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