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### Will This Bull Ever Tire? Part 3—Tough Trade Talk

Recent news headlines highlight the danger of trade wars accelerating. In an effort to “*MAKE AMERICA GREAT AGAIN*,” President Trump is eager to review all trade agreements to make sure American consumers and businesses are not getting disadvantaged in any way. Every organization, treaty or agreement—past, present, and future—is under ongoing scrutiny. Trade deals between countries and industries are being analyzed to determine whether the agreements are fair and economically viable. With the three largest trading blocs—EU, China, and the U.S.—involved, it is wise for investors to pay attention as the drama unfolds.

Is there a reason to boost commerce between countries or is protectionism the best way?

Economic models of absolute and comparative advantage prove that, all else being equal, it is best for countries to specialize in products for which it has cheaper costs and trade to obtain other products it needs. This sort of trade creates a very efficient use of available capital. Parties to reach a trade agreement could potentially offer some of the following unique resources: cheap labor, natural resources, location, climate, developed infrastructure, transportation, financing, technological and intellectual capital, and management expertise.

Over time, however, what was once drafted as a win-win for all countries involved can devolve into something quite different. As countries develop and resources change, inequities can begin to affect existing deals. For business deals and trading to take place, countries must consider the following:

- Human rights and labor conditions
- Environmental responsibilities as resources are utilized
- Political openness to business/trade
- Government subsidies of business costs
- Tax and Tariff impositions
- Dumping goods at below cost to maintain trade advantages

As time lapses, terms need to change to keep pace with what is best for both sides of the trading agreement. What compromises are necessary for trade to be not only free, but fair for all parties?

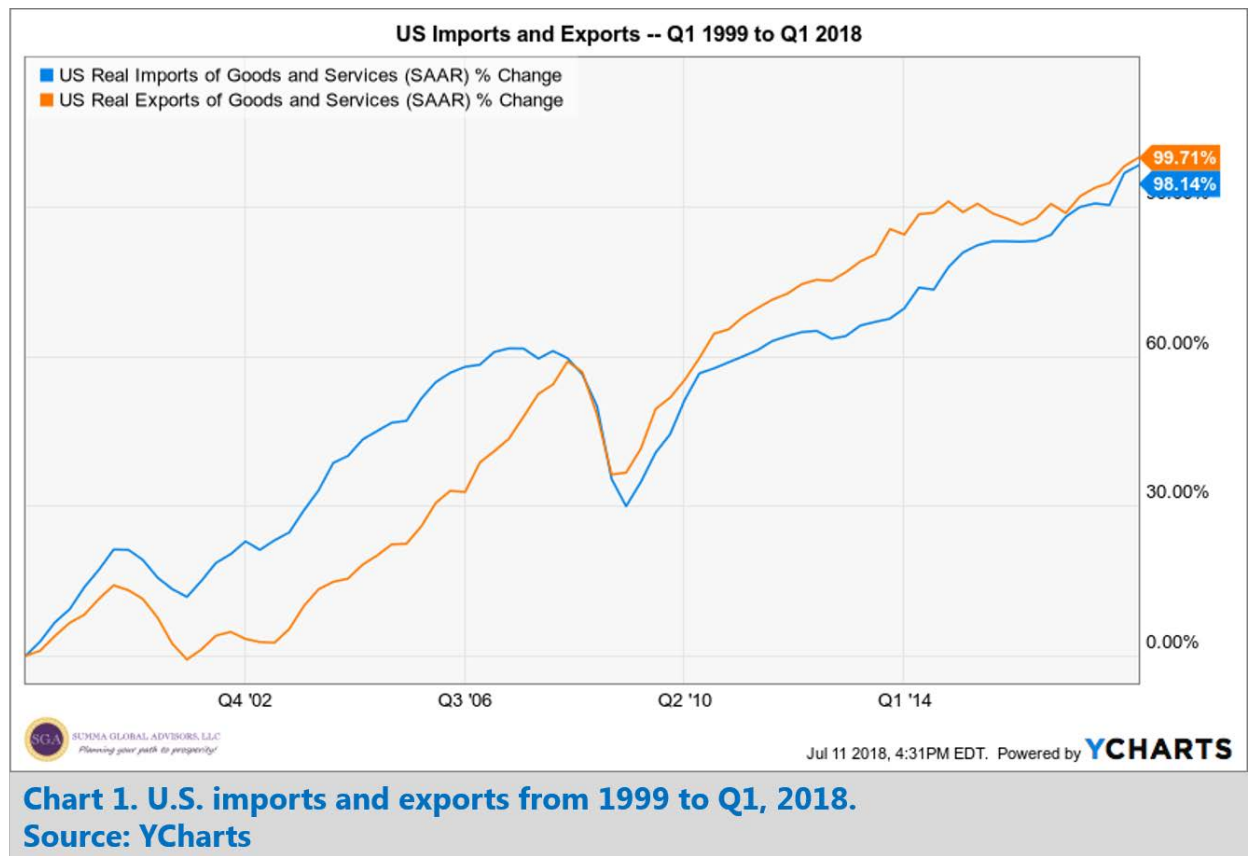
As trade agreements become a political hot button, markets and businesses will keep a close eye on impacts and plan accordingly. Every change made between trading partners creates an economic impact, which is why the stock market is continually assessing possible effects on businesses, sometimes creating significant volatility. Often, though one business sector may be helped by changes, another is hurt.

Two recent case studies are soybeans and steel. See the following chart.

Traded Good	Current Assessment	Planned Action (Hurts U.S.)	Recent Outcomes
<b>Soybeans (July 2018)</b>	<ul style="list-style-type: none"> <li>30% of US crops sold to China (\$14 billion)</li> <li>In previous years, benefit from China and NAFTA trade agreements</li> </ul>	<ul style="list-style-type: none"> <li>China put retaliatory tariffs on soybeans because U.S. imposed tariffs on Chinese products to "level the playing field"</li> </ul>	<ul style="list-style-type: none"> <li>Prices down 20%</li> <li>Brazil takes market share</li> <li>US must sell to other markets</li> <li>Oversupply so prices fall</li> <li>Farms running at a loss/US farmers purchase less equipment</li> <li>Chinese buyers purchased soybeans before tariff deadline</li> </ul>
<b>Aluminum/Steel (March 2018)</b>	<ul style="list-style-type: none"> <li>Labor costs are high, making U.S. steel expensive.</li> </ul>	<ul style="list-style-type: none"> <li>U.S. places tariff on all steel and aluminum to help protect steel manufacturing jobs.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in price of steel, price of cars, etc.</li> <li>American companies have higher costs (cars, heavy industry, metal roofing, etc.)</li> <li>Reciprocal tariffs from Canada, China, other countries</li> </ul>

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Sadly, trade wars are a zero-sum game. Imports and exports seemingly move in tandem (Chart 1).



With technology giving us immediate feedback about winners and losers, as well as costs and benefits, it will not take long for this to become a political mess. Let's hope that world leaders will see it for the zero-sum game it is before there are too many casualties.