FEATURE ARTICLE: THE ART OF THE TRADE DEAL

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Throughout his tumultuous and controversial presidential campaign, Donald Trump made clear that, if elected, he would 'Make America Great Again'. The slogan implies that while America was once great, the adjective is no longer appropriate. As per Trump's campaign, and his presidency since, he believes that the trade agreements that America has in place with its major trading partners are among the main culprits for the nation losing its 'greatness' status. This belief continues to be the basis for the predominant themes of protectionism and isolationism that currently occupy the Oval Office.

Trump has remained staunchly opposed to America's trade agreements throughout his presidency, however his isolationist rhetoric has increased recently. Trump's disgruntlement with America's trade agreements are because of several different factors. The first is the trade deficits that America has with many of its most significant trading partners, including China, Mexico and Canada. Trade deficits are financed by debt, or by borrowing from its trading partners. While this is fine at the moment, it could become an issue if the trading partners ever decided to stop lending to the US. Trump is also angry that the US' manufacturing sector has moved offshore, with China being the main beneficiary since its inclusion in the World Trade Organisation. Finally, the Trump administration has investigated China's theft of American intellectual property (IP), with the conclusion being that China's lax IP regime and its counterfeit culture has cost American companies hundreds of billions of dollars.

On 1 March 2018, Trump announced a 25% tariff on all steel imports and a 10% tax on all aluminium imports, although he did provide exemptions to many key trading partners. In early April, both China and the US upped the ante. The Chinese government announced tariffs on imported goods from the US worth approximately US$3 billion, including a 15% tariff on 120 American products including fruits, wine, nuts and steel pipes, as well as a 25% tax on eight other products, including pork. A day later, in response to the investigation into China's intellectual property (IP) theft, the Trump administration proposed a 25% tax on nearly 1,300 Chinese goods, including those from the medical, machinery and aerospace industries. China hit back with tariffs that almost mirror those from the US, a 25% tariff on a range of products, worth approximately $50 billion. On 5 April, Trump announced a broader wave of new tariffs, reportedly worth US$100 billion.

In this month's feature article, we discuss the trade wars that the world's two largest economies appear to be on the brink of. We explore previous cases of escalating trade tensions and trade wars, which show that there are few winners in such environments. In the latter half of the feature article, we discuss the likely implications of trade wars this time around, including both on the global economy and for financial markets. Should the situation eventuate into full-blown trade wars, we expect an extended risk-off period for financial markets and a global recession.

1.1 The Precedent of Previous Trade Skirmishes

Given that trade tensions have escalated over the past few months, it is important to understand the likely implications of the tensions, and a good place to start is by examining previous cases of trade skirmishes.

1.1.1 Smoot-Hawley Tariff Act of 1930

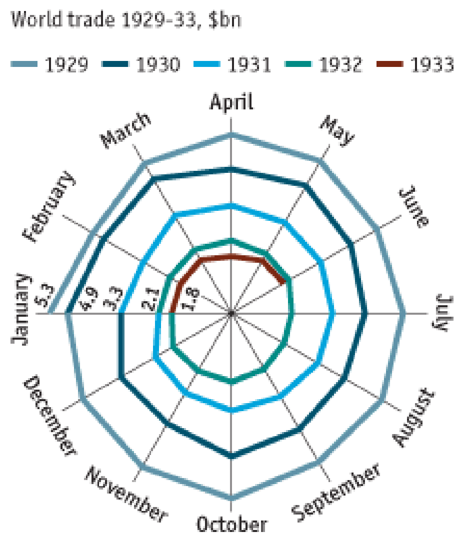
In 1928, Herbert Hoover was elected as president following his campaign promises to help struggling farmers by increasing tariffs on agricultural products. In October 1929, the stock market crashed (Black Tuesday), triggering a severe risk-off event in markets, which led to deflated asset and commodity prices, as well as dramatically reduced consumption and investment spending. While the world was finding itself in the depths of the Great Depression, a tariff act was being debated in Congress. The Tariff Act of 1930, more commonly known as the Smoot-Hawley Tariff Act, was signed into law on 17 June 1930. The act increased tariffs on hundreds of goods by an average of approximately 45%.

In part, the increase to tariffs was intended to protect American industry from foreign competition so as to ease the implications of the Depression. However, it has been broadly agreed that the tariffs exacerbated rather than abated the Depression. The tariffs caused the price of imported goods to increase by 45%. Millions of Americans had just had their savings and wealth decimated by the stock market crash. The rise in import prices caused imports to be altogether unaffordable for everyone aside from the wealthy. For those who lost their jobs during the Depression, they could only barely afford domestically produced goods.

Many of America's trading partners, including Canada and Europe, retaliated with tariffs of their own. From 1929 to 1932, exports fell by 64% and global trade plummeted by approximately the same amount. As a result, American manufacturers that relied on global trade struggled to remain in business. In the figure below, The Economist illustrates the impact that the combination of the tariffs and the Depression had on the volume of

global trade. From 1929 to 1933, global trade plummeted, from US$5.3 billion to US$1.8 billion.

Figure 1: World Trade during the Great Depression



Source: The Economist

Thankfully, lessons were learnt from the economic hardship that the Smoot-Hawley Tariffs exacerbated. In 1934, President Roosevelt passed the Reciprocal Trade Agreements Act, which gave Roosevelt and his successors the authority to negotiate tariff reductions with foreign governments. This approach gave way to the US' trade policy taking on a much more global and strategic nature. This approach was more broadly adopted by other foreign governments, which led to the creation of the General Agreement on Tariffs and Trade in 1948 and its successor, the World Trade Organisation, in 1995.

1.1.2 Bush Steel Tariffs

In early 2002, President George W. Bush implemented tariffs on imported steel, ranging from a 15% tariff on bars and rods and a 30% tariff on sheets. Similarly to the Smoot-Hawley tariffs, they were meant to be a defensive reaction to domestic producers struggling in the face of low-cost imports.

The tariffs had significant implications for American steel companies. By April 2002, a month following the enactment of the tariffs, the American steel industry was having trouble keeping up with the demand for domestically-produced steel. The steel industry went from running at a capacity of approximately 70% to nearly 100% in less than two years. Some producers were forced to ration sheet steel to buyers because their plants were operating at capacity.

Part of this increased demand was caused by manufacturers that used steel in their own production processes. Many of these manufacturers had historically relied on cheaper, imported steel. Following the implementation of the tariffs, these manufacturers were forced to switch to domestically-produced steel, because the majority of them were 'price-takers'. In other words, they were too small to be able to demand their customers to pay more and so were forced to adapt their supply chains to cut costs by switching to lower cost domestic steel providers. The surge in demand-side pressure caused steel prices to increase dramatically. The price of steel and iron ore rose by more than 60% in the three years from the end of 2001 to the end of 2004.

The surge in iron and steel prices had severe downstream implications. As already stated, the higher prices significantly impacted steel-using industries. Such industries employed roughly 57 times more workers that the steel industry itself, or 12.8 million compared to 170,000. According to a report from the Consuming Industries Trade Action Coalition, approximately 200,000 workers in the US manufacturing sector (steel-producing and steel-consuming) lost their jobs because of the tariffs.

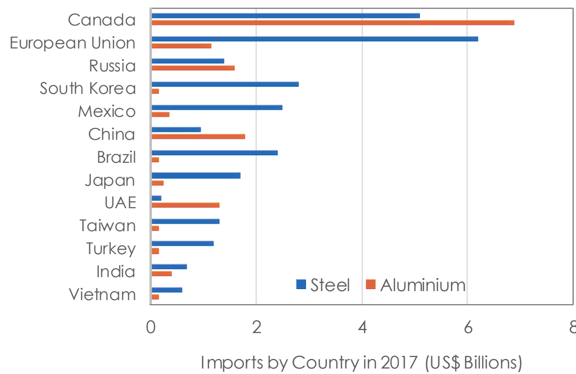
Threats of retaliation were issued at the US, including from the EU. The EU announced that it would impose tariffs on a wide range of products, including those that were produced in key swing states that were critical to the success of Bush seeking re-election in the 2004 election. Eventually Bush was pressured into withdrawing the tariffs, which he did in December 2003. Much of the pushback on the tariffs came from the steel-consuming sectors, which is dominated by the automotive and construction industries, both of which have a great deal of political bargaining power. The National Association of Manufacturers formally opposed the tariffs, and eventually the WTO ruled that the tariff policy was illegal because it violated international trade agreements. Ultimately, Bush's steel tariffs had serious consequences, notably higher prices, smaller quantities of steel and iron for US businesses and consumers and reduced employment.

1.2 The Magnitude of the Threats

Will the measures that have so far been proposed by the American and Chinese governments lead to a full-blown trade war? If we first consider the implications of the steel and aluminium tariffs implemented by Trump, the effect could actually be quite minimal given the exemptions that Trump has indicated he will grant to its closer allies. The chart below shows the largest sources of steel and aluminium imports by country. Of those presented in the chart, the European Union, Canada, South Korea, Mexico and Brazil have all been granted

exemptions. In other words, five of the top seven largest sources of steel and aluminium combined are excluded from the tariffs.

Chart 1: US Imports of Steel and Aluminium by Country, 2017



Source: The Economist, Peterson Institute for International Economics, Whitehelm Advisers

Trump's first iteration of his isolationist agenda would have done little in terms of negatively impacting China, which is one of Trump's key desires. China's steel and aluminium imports account for just 0.03% of China's GDP, which is clearly immaterial. While the tariffs would affect the steel and aluminium sectors in China, the tariffs would be unlikely to have significant implications for China meeting its growth targets.

China's initial response to the steel and aluminium tariffs was to apply tariffs to American imported goods worth approximately US$3 billion. Then came the tit-for-tat responses from both countries – 25% tariffs worth approximately US$50 billion proposed by both sides. While these numbers sound large, they are actually relatively small proportional to the size of the countries' trade and economies. Based on the list of proposed goods to be tariffed and the importance of them to the respective economies, it has been broadly estimated that the US tariffs on China only affect approximately 2.5% of total Chinese exports and about 2% of total US imports.

Trump's announcement of an additional US$100 billion worth of tariffs obviously magnifies these figures, and given that the full list of goods subjected to imports is still under review, the full extent of the implications is uncertain. While we consider that the tariffs proposed so far may not be disastrous for global trade, they will certainly have local and serious implications for certain sectors within both China and the United States, as well as other peripheral countries. We discuss these likely implications, particularly for business, consumers and global trade in the sections that follow. The more considerable downside risk is if the current tensions escalate into a more widespread trade war. We do not believe that a trade war is in Trump's interest nor what he necessarily set out to do, but it currently appears that he is acting with blinders on. We also discuss the ramifications should this be the result.

1.3 Unintended Consequences

Implications for Businesses

Start by considering the implications of the steel and aluminium tariffs. Trump's tariffs are good news for American aluminium and steel producers because a tax on foreign imports makes their products relatively cheaper. But it is bad news for American steel and aluminium-consuming industries, as was articulated in the example of the Bush steel tariffs. If such industries rely heavily on foreign imports, their cost of production suddenly goes up, unless they can find a reasonable domestic alternative. They can choose to swallow the increased costs or pass them on to customers, neither of which are a positive outcome. As was the case following the implementation of Bush's steel tariffs, a large part of the steel-consuming sector was dominated by small price-taking companies which did not have the market power to increase prices for customers and expect to retain their business.

The increased costs for the metal-consuming industries cause them to not be able to afford to invest in productivity-improving technology. This gives a leg-up to foreign producers of similar goods. Consider the example in the box below, noting that the author of this feature article can attest to the quality of Nova Scotian lobster!

Over the past decade, Canada and the EU have negotiated a trade agreement which makes it easier and less expensive to export goods and services, by cutting 98% of tariffs between the two countries. For example, the trade agreement eliminated an 8% tariff on live Canadian lobster imported into the EU, and tariffs on frozen and processed lobster will be phased out in the next three to five years.

Per an article from the New York Times in November 2017 (*Trump's Trade Policy Is Lifting Exports. Of Canadian Lobster.*), lobster fisherman in the small eastern Canadian province of Nova Scotia are rejoicing. Per the article, the reduction in the tariffs has given Canadian lobster fishermen a significant advantage over its American counterparts, given that tariffs remain on imports of American lobster in the EU. The reduction in the tariffs has had measurable impacts for the Canadian lobster fisherman, with the article noting the case for Gidney Fisheries located in the remote town of Centreville, Nova Scotia. To keep up with the increased demand for its lobster, it plans to increase the size of its workforce by half and has already invested in state-of-the-art technology.

As for the American counterparts, the reduction in trade barriers between Canada and the EU has not made them completely obsolete, but it has impacted their profitability. American lobster fishermen continue to sell more lobster to the EU than Canada, although that gap is narrowing significantly.

A spokesperson for the Maine Lobster Dealers' Association, said that the trade agreement between the EU and Canada has actually encouraged American lobster fisheries to invest in operations in Canada, sending jobs and money to Canada: '*If the argument is you're not going to develop this trade policy because you're worried about outsourcing jobs – well, here we are, potentially outsourcing jobs due to an absence of trade policy.*'

This example shows the peripheral impacts of trade barriers between two countries. Relatively restricted trade between the US and EU as compared to that between Canada and the EU has been extremely beneficial for Canadian businesses, and detrimental to those located in the US. Furthermore, the Canadian people have benefitted from companies increasing their workforce, while Americans have seen jobs move north of the border.

For even further knock-on implications consider the importance of steel in America. It is used to make cars, trains, planes, and many everyday household items. It is the lifeblood of American infrastructure, given that it is used in the construction of office buildings and bridges, and is also used in the production of the equipment that makes them, such as cranes and excavators. Steel is also essential in the extraction of oil and natural gas. The steel-consuming industries significantly dwarf the steel-producing industries in America. Per Moody's, the steel-consuming industries employ approximately 6.5 million workers, while the steel-producing industry only employs 140,000 American workers.

Estimates on the implications for the labour market vary. An analysis by the Trade Partnership, an American consultancy firm, has predicted that, in the short-term, the steel and aluminium tariffs will create an estimated 33,000 jobs in the steel and aluminium producing sectors, and cause an estimated 179,000 jobs in the steel and aluminium-consuming sectors to be lost. With these tariffs alone, while Trump is protecting those employed in the steel and aluminium sectors, he is more than compensating for those gains with significant losses for other sectors in the economy. Ultimately, Trump's aluminium and steel tariffs are expected to create wealth for a small part of the manufacturing sector and destroy it for a much larger part of it.

We have so far discussed the implications for businesses if the tariffs were only to include those on aluminium and steel, but we know that Trump's proposed tariffs now have a much wider reach. If the tariffs stay as they are without any further escalation, we could expect similar implications as to what has been described for the steel and aluminium sectors, but much more widespread. Additionally, given that China has retaliated with tariffs of their own, companies that export goods to China would face decreased demand from overseas, a double-whammy for the American economy.

When unemployment rises and investment falls, productivity falls. This is particularly relevant for the businesses and broader sectors that are downstream from the sectors that are being specifically targeted with tariffs.

For the sectors that are being specifically targeted with tariffs, they will likely see an improvement in productivity at least initially as they try to keep up with increased domestic demand, through both hiring new employees and investment in productivity-boosting technologies. However, if they invest in productivity-improving technologies by borrowing significantly, any decrease in future demand (potentially through the elimination of tariffs) could be particularly damaging.

If the fall in unemployment and productivity is extensive enough, economic growth will also fall, which would be a particularly disappointing result given the emergence in global synchronised growth over the past year.

Implications for Consumers

Trump seems to have so far ignored the implications that tariffs, and even worse, trade wars, could have on the everyday Americans that he has set out to protect. But some businesses have flagged the likely implications, including the Campbell Soup Company. Per a statement from a spokesperson from the company: '*Any new broad-based tariffs on imported tin plate steel – an insufficient amount of which is produced in the US – will result in higher prices on one of the safest and more affordable parts of the food supply.*'

Tariffs will make domestically produced and foreign imported goods more expensive. Consider the steel tariffs. Companies that use steel in the production of their own products will face increased costs. If they are not price-takers, noting that most large food conglomerates are not, they will likely pass the costs on to their customers. So Americans are likely to see increased prices on items made of steel. Commerce Secretary Wilbur Ross tried to refute this argument in an interview with CNBC:

'*In a can of Campbell's Soup, there are about 2.6 pennies worth of steel. So if that goes up by 25 percent,*

that's about six-tenths of one cent on the price of a can of Campbell's soup. I just bought this can at a 7-Eleven, and it priced at a $1.99. Who in the world is going to be too bothered?'

We have trouble understanding Ross' logic when the tariffs that Trump has proposed are so wide-reaching that many industries and many more products than a simple soup can will be affected. Small upticks in price on a wide range of products will inevitably affect consumer spending habits. While wage growth has picked up moderately so far in 2018, it is certainly not high enough to offset the inflationary pressures and higher costs that could come through from the unintended consequences of tariffs. Higher prices with little to no change in incomes will cause spending power to decrease. For those who may be affected by spikes in tariff-induced unemployment, the issue may be even more acute.

In the last couple of paragraphs, we have assumed that the impact of the tariffs will be as straightforward as past cases, such as the Bush steel tariffs. Given that we do not yet know the full extent of what Trump is proposing, it is understandably difficult to nail down the exact inflationary implications for Americans.

Implications for Global Trade

In a speech at the Asia Global Institute in Hong Kong in April, the Managing Director of the International Monetary Fund (IMF), Christine Lagarde, warned that the globalisation that has transformed the world over the past several decades is at risk of being completely reversed. Per Lagarde: '*That system of rules and shared responsibility is now in danger of being torn apart. This would be an inexcusable, collective policy failure.*'

Trump's aluminium and steel tariffs on their own would have been unlikely to completely dismantle the global trading system. However, the ramp-up of tariffs since then, does have the potential to disrupt the global trading system. New trade barriers could cause a shift in traditional trading relationships. If trade wars were to eventuate, China would need to rethink its traditional trading partners, and potentially reposition itself, particularly within Asia. For example, China would likely need to find new sources for products that it currently imports from the US on which it has proposed implementing tariffs. For example, if the tariffs get implemented to their full extent, products such as pork, soybeans and aircraft parts will suddenly become more expensive. China could build stronger trading relationships with other countries that produce such goods, such as in other parts of Asia or Latin America.

If the tensions escalate into a full-blown trade war, serious disruptions to supply and distribution chains could be the result. Companies that have supply chains entrenched around the world, including in both China and the US, may need to relocate their factories, distribution centres and even their headquarters. Furthermore, the transfer of income from foreign producers to domestic ones would be inefficient from a global market perspective, because the move to an isolationist market dynamic would reduce the size of world markets. Global trade is generally considered to be efficient because it allows countries to specialise in producing items that they can make efficiently and import everything else from countries that specialise in such products. The implementation of tariffs reverses this efficiency, and the reduced cooperation will hurt global investment flows, and could hamper the US' leading position in economic and political partnerships.

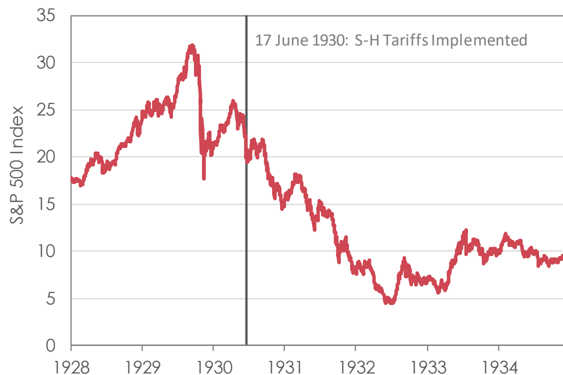
1.4 Financial Market Implications

Over the past 12 months, we have seen an emergence of synchronised global growth. Europe has appeared from under a dark cloud of an extended period of low growth, amid other major economic woes. Additionally, growth forecasts for the US have been revised upwards, in reflection of the stronger than expected economic activity in 2017, and the potential macroeconomic benefit of tax reform in the year ahead. The improved economic backdrop has encouraged central banks to re-examine the current monetary policies they have in place. A stronger than expected wage growth figure out of the US in late January, acted as a sign that inflationary pressures in the US are starting to build, potentially pushing the Federal Reserve on a more aggressive interest rate hiking path than previously anticipated.

This change in expectations for the Fed brought the 2017 euphoria in equity markets to an end. Share markets experienced an early February sell-off because of the worry of what higher interest rates could mean for earnings, and in turn share prices. Since then, share markets have been grappling with the potential implications of increasing trade tensions, and even trade wars. History has shown us that trade wars are not good for markets.

The first example that we discussed was the implementation of the Smoot-Hawley Tariffs. In October 1929, share markets crashed on a day now known as 'Black Tuesday'. Panic gripped financial markets because of a complete loss of confidence in the American financial system. This followed several consecutive years of 20% annual returns. The share market had rebounded and made up about half of its Black Tuesday losses before the tariffs were implemented in 1930. US equity markets fell by a further 80% following their implementation in June 1930 before starting to recover in 1932.

Chart 2: S&P 500 Index, 1928 - 1934



Source: Bloomberg, Whitehelm Advisers

The tariffs that Bush implemented in March 2002 had a similar impact, but not to the same extent. In the months following their implementation, global share markets fell by a total of between 30-45% before making a recovery. The recovery was further supported by the EU's complaint to the WTO regarding the tariffs which ultimately resulted in the WTO ruling against the US in November 2003. Bush dropped the tariffs in December 2003.

Implications This Time Around

If the escalating trade tensions fizzle out and a deal is reached, we would expect relatively little turbulence for share markets. That said, the uncertainty of the journey in getting to that point might spell further short-lived sell-offs like those that we have seen over the past few months. If the tariffs do get implemented to the full-blown extent, we expect a similar story for share markets as to what occurred following the implementation of the Bush steel tariffs. Broadly speaking, equity markets will be negatively impacted, but some sectors are likely to face a far worse fate than others.

Chinese companies that are being directly targeted by the Trump tariffs will likely come under pressure given that their export volumes would fall as American consumers would opt for the cheaper American-made products. The same is true for American companies that export goods to China that have been targeted by China's retaliatory tariffs. Companies with complicated supply chains embedded in China will also feel the pinch given that they will either have to pay more for the Chinese goods that they use in their production, or they will have to fundamentally change their supply chains to replace Chinese suppliers with domestic suppliers, which could be an expensive and drawn-out process on its own.

Investors are understandably worried about the potential impact of an all-out trade war between the globe's two largest economies. They are worried about the impact of escalating trade tensions on global economic growth, inflation and corporate earnings. Cyclical sectors, or those that are more exposed to economic swings, will be the most exposed. Furthermore, companies that have invested a great deal in cross-border supply chains may need to write them off, another source of concern for financial markets.

The implications that we have discussed so far, including a rise in unemployment, a drop in economic growth and increased inflation is worrying for financial markets that have so far shown this year to not like inflation. Additionally, Trump's tariffs have thrown a spanner in the works for the Fed, because it was just starting to tighten its monetary policy in reflection of the stronger growth, tight labour market and emerging signs of inflation. The Fed may need to reconsider its plan to continue to increase the federal funds rate, given that it is currently planning for at least two more rate hikes before the end of 2018. It may be faced with the difficult task of suppressing excessive inflation and stimulating growth With the tariffs expected to reduce growth and raise inflation, the US government yield curve has reacted accordingly. The yield curve is currently the flattest it has been since 2007. Short-term rates have moved higher because of the continued expectation that the Fed will raise rates, while long-term rates have remained relatively flat given the longer-term risks to economic growth brought about by escalating trade tensions. We would be revisiting the investment strategy with a view of lowering equity allocations in the event of a full trade war coming into reality.

1.5 A Different Retaliatory Approach

The United States has a large current account deficit, of which the trade deficit contributes to. The current account of a country is the difference between its national savings and its national investment. A country that invests more than it saves (such as the US) typically has relatively high interest rates, which brings in capital from overseas. The strong capital inflow brings about a stronger currency, which encourages more imports and less exports. Because the US runs a current account deficit, it must borrow to maintain investment and consumption.

The current account surpluses that many of America's trading partners have means that they save more than they invest. Such countries have several options for how they can put these savings to work, but historically this has been heavily weighted towards buying US treasury bills and other US government securities. While they could get higher rates of return from investment in any number of other countries or asset classes, US treasuries are

often favoured because of their status as being considered 'risk-free'. Additionally, negative yields in some sovereign markets around the world, generated by extremely accommodative monetary policy practices by the ECB and the Bank of Japan in particular, have made US treasuries all the more appealing. The high demand for US treasuries has driven down the cost of borrowing for the US government. It also allows US corporations to enjoy cheaper domestic borrowing costs.

China is the largest foreign holder of US treasuries, holding close to US$1.2 billion by the end of 2017. This is largely because China has a trade surplus with the United States (it exports more to the US than the US exports from it), and given that the transactions are carried out in US dollars, China has an excess amount of dollars to be put to use. Furthermore, China also manages its exchange rate within a certain range versus the US dollar by buying and selling both the US dollar and the yuan.

As America's largest foreign lender, China has a great deal of retaliatory power if the trade tensions continue to escalate. Per an article by economist Professor Warwick McKibbin in the Australian Financial Review on 5 March 2018 (refer to *How countries should respond to Donald Trump's trade war)*, likely the most effective way to strike back would be for China to sell its US treasuries:

'*If the major creditor countries left their tariff rates unchanged and instead decided to sell their holdings of US government securities and invest in other countries, the US would quickly discover the fundamental error in the economic logic underpinning the Trump administration. The US dollar would drop sharply, US long bonds would rise by several hundred basis points until US savings rose and US investment fell so as to move the trade position closer to balance. US exports would rise and imports would fall. US firms, consumers and the government would be far worse off due to higher borrowing costs but they would sell more for cheaper prices to foreigners, The US would have to learn to live within its means if it no longer wanted to have the benefits of access to an open global trading system. The lesson would be that a country that leverages by borrowing for decades in order to sustain consumption and investment levels that are far removed from fundamentals, eventually has to pay. It is not surprising that many of the billionaires in the Trump administration don't understand this logic because the US economy has mirrored their own financial strategies of borrowing heavily, subsidized by foreigners and leveraging those loans to generate enormous wealth.*'

As McKibbin points out, such a move from China, or any of its trading partners for that matter, would be dramatic and would have serious implications for America as a whole. The government would face much higher interest costs, further enlarging the already ballooning debt. The rise in treasury rates would drive interest rates across the board higher, affecting Americans, for example through higher mortgage rates. Higher monthly mortgage payments with no change in income would affect spending power. US exporters would be a beneficiary of such a move because of the weaker dollar but imported goods would become more expensive.

It should be noted that if China were to make such a drastic move, it would not just be the US that would suffer. China would face its own series of consequences, given the spike in treasury yields that would result. The spike in yields would lower the value of the bonds that they continue to hold, given that bond prices decrease when yields increase. This would hurt China's US dollar reserves, impacting the strength of the yuan, so in a way China would be cutting off its nose to spite its face. That said, it's a card that China can play if things get ugly. A more gradual reduction in China's treasuries holdings could be easier to manage over the short term.

1.6 Conclusion

It is not a new challenge that the Trump administration is facing – many administrations in the past have been faced with the challenge of providing protection for hard done by industrial sectors of America. Political pressures (such as seeking re-election) have at times encouraged presidents to adopt protectionist policies in the naïve hope that appealing to a particular set of voters will help their political standing. Ultimately, protectionist policies have a much broader reach than affecting just the Americans that have been affected by globalisation. As previous precedents show, isolationist and protectionist trade policies typically result in far worse downstream implications than predicted, or at least acknowledged.

Hopefully Trump will realise that trade wars are not something you can win – all economies involved will be adversely affected. He also needs to appreciate the vulnerable position that America is in because of its level of borrowing from its key trading partners. Until then, the world will be waiting for any developments with bated breath, refreshing Trump's twitter feed for any indications of what will come.

This feature article is a condensed version of a more in-depth article. If you are interested in accessing the longer-form version, contact Nicole McMillan at Nicole.McMillan@WhitehelmCapital.com