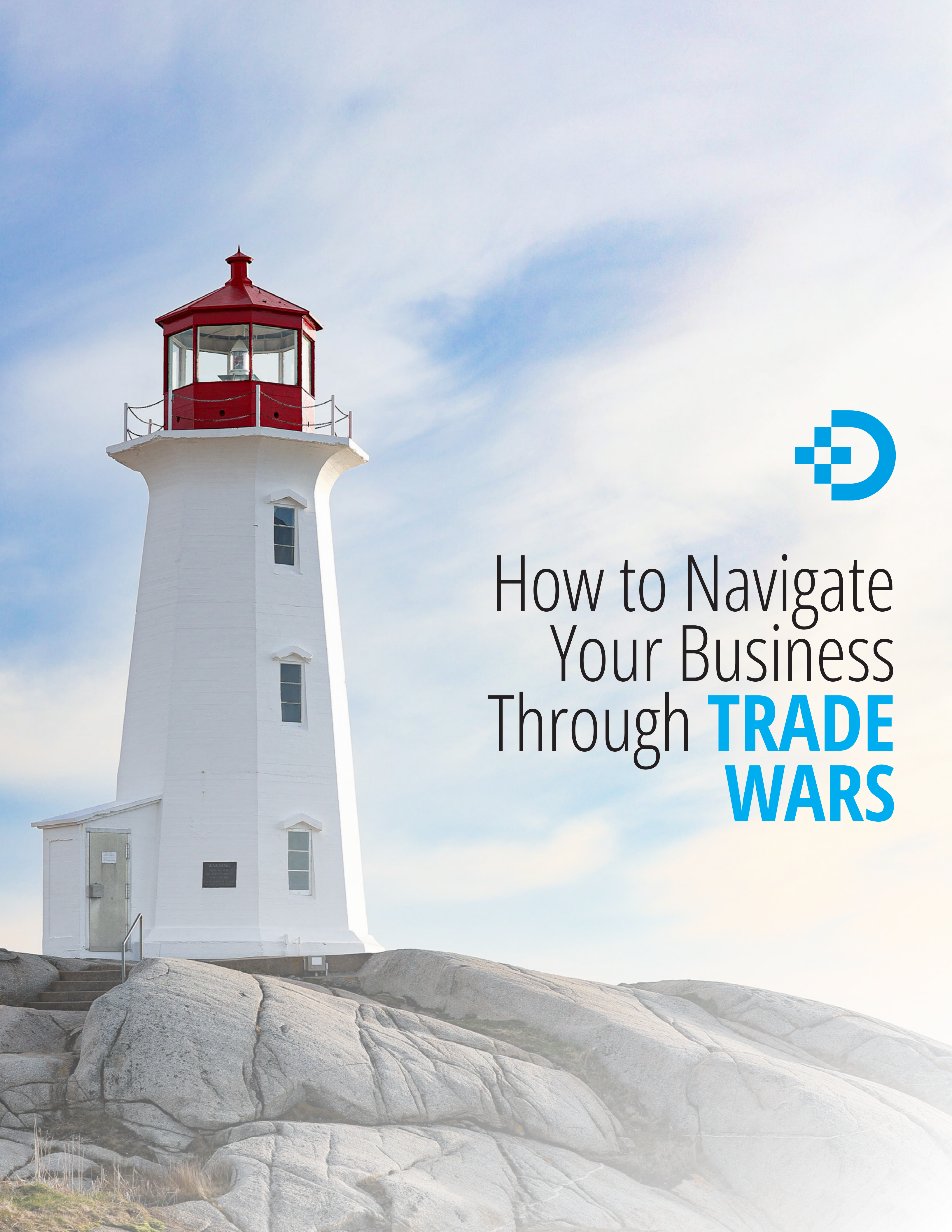
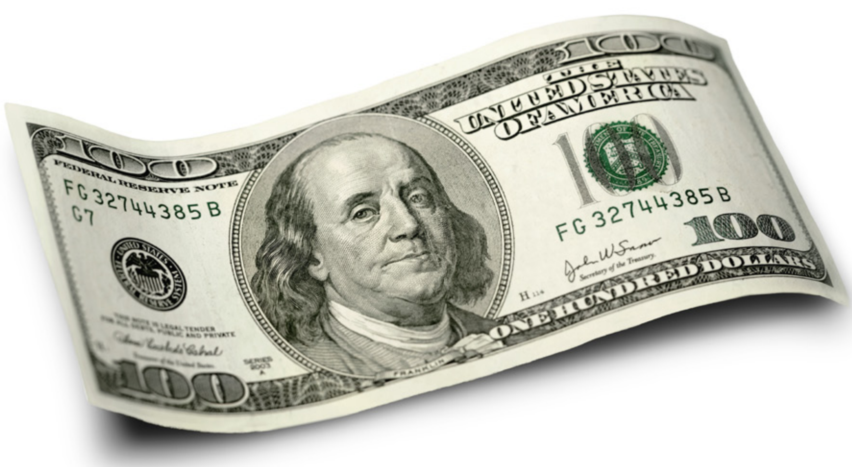
How to Navigate Your Business Through **TRADE WARS**



As a business leader and executive, **you must always be prepared for the unexpected when it comes** to securing the future of your company. The state of affairs around the world is heating up like we haven't seen in the past 50 years, China is expected to outpace the US economy in 2060, but strategic and political moves by the United States are seeking to contain China's rise. Coupled with Russia's aims to create a multipolar world order and a new group of non-aligned developing nations are taking this chaos to build their institutions. This new cold war is creating a turbulent time for the interdependent global market and businesses in developed and developing nations.



What Is a Trade War?

A trade war happens when one country retaliates against another by **raising import tariffs or placing other restrictions on the other country's imports.** An example of it can be President Trump's Import Tariffs in 2018 against Chinese imports which marked a brief period of an active tit-for-tat trade war. Former President Trump expressed his disdain for many current trade agreements, promising to bring manufacturing jobs back to the United States from other nations where they had been outsourced, such as China and India. After his election, he embarked on a protectionist campaign. President Trump also threatened to pull the United States out of the **World Trade Organization (WTO),** an impartial, international entity that regulates and arbitrates trade among the 164 countries that belong to it. In early 2018, President Trump stepped up his efforts, particularly against China, threatening a substantial fine over alleged intellectual property (IP) theft and significant tariffs. The Chinese retaliated with a 25% tax on over 100 U.S. products.

China-US 2018

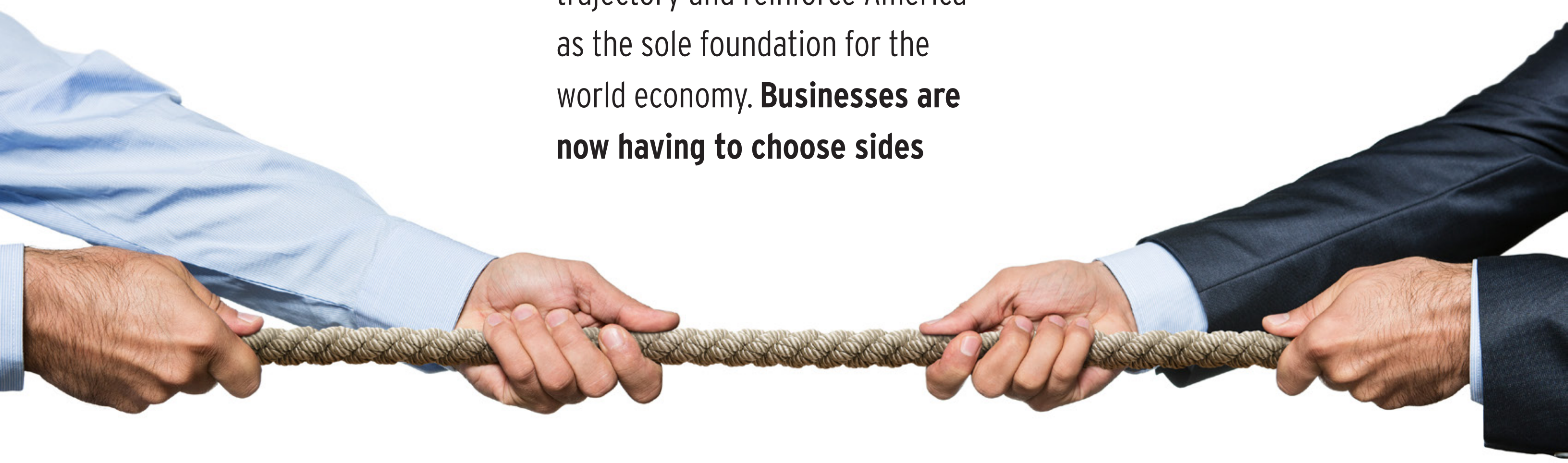
Throughout 2018, the two nations continued to threaten each other, releasing lists of proposed tariffs on various goods. Although China responded with tariffs of its own, the American duties did have an impact on the Chinese economy, hurting manufacturers and causing a slowdown. In December, each nation agreed to halt imposing any new taxes. The tariff war cease-fire continued into 2019. In the spring, China and the United States seemed on the verge of a trade agreement. At the beginning of May, Chinese officials took a new hard line in negotiations, refusing to make changes in their company-subsidizing laws and insisting on the lifting of the current tariffs. Angered by backtracking, the President doubled down, announcing on May 5, 2019, that he was going to increase tariffs, as of May 10, from 10% to 25% on $200 billion worth of Chinese imports. Emboldened by the fact that the U.S. trade deficit with China had fallen to its lowest level since 2014, they responded in kind by halting all imports of farm products by state-owned firms in retaliation. The **United States and China agreed to a trade deal that was signed on Jan. 15,** 2020,8 but the subsequent COVID-19 pandemic continued a further escalation of trade tensions between the two nations.

Understanding a Trade War

Trade wars are usually considered a side effect of protectionism. Protectionism refers to **government actions and policies that restrict international trade.** A country will generally undertake protectionist actions to shield domestic businesses and jobs from foreign competition. Protectionism is also a method used to **balance trade deficits.** A trade deficit occurs when a country's imports exceed the amounts of its exports. A tariff is a tax or duty imposed on the goods imported into a nation. In a global economy, a trade war can become very damaging to the consumers and businesses of both nations, and the contagion can grow to affect many aspects of both economies. The two sides may even directly target critical economic sectors to damage their growth and business potential in the future. This puts globally dependent businesses in an extremely precarious decision.

Predictions

As the US and China continue to grow while managing their domestic and international foreign policy the question being asked is who can decouple first? Since the beginning of the trade war in 2018, the US has been redirecting business investment into new developing Asiatic markets like Indonesia, Pakistan, India, and Vietnam. These countries have seen the largest GDP growth in recent years due to the redirection of trade and investment from the United States and surprisingly enough China. While American markets are diversifying their portfolio and production capabilities to new sources overseas, similarly has China, and at increasingly higher rates. While the Belt and Road Initiative (BRI) holds as its mission to redirect global trade and production straight to China, the adversarial Partnership for Global Infrastructure and Investment by the US is seeking to change that trajectory and reinforce America as the sole foundation for the world economy. **Businesses are now having to choose sides across the world,** whether to accept lucrative investments from the Chinese or long-term infrastructure investments from the Americans. Coupled with the current war raging in Ukraine, the global community is increasingly drawing lines between societies supporting or denouncing the invasion. Xi-Jinping's recent remarks at the 2022 Annual CCP congress mark a change in rhetoric over his term as Chairman "We must strengthen our sense of hardship, adhere to the bottom-line thinking, be prepared for danger in times of peace, prepare for a rainy day, and be ready to withstand major tests of high winds and high



waves." If the Chinese as preparing for the rainy day and high winds, we should expect nothing less if we aim to bring our business out of this predicament and into a brighter future.

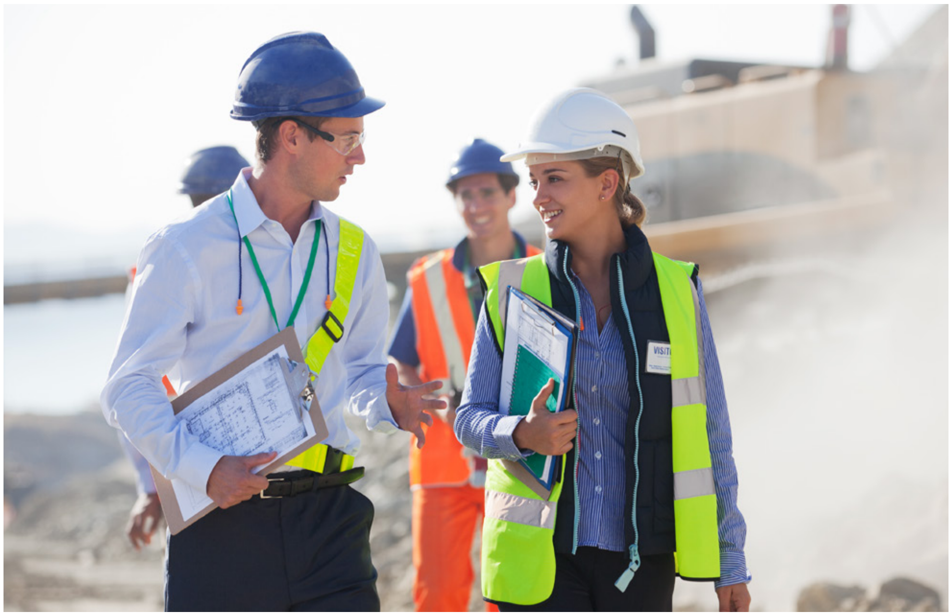
What can you do?

1. Stockpile

The one thing that will be certain during the outbreak of a trade war is the lack of raw materials and labor to produce the goods needed to keep our global markets in check. This means that companies who have prepared ahead of time with stockpiles and inventory to help them through the initial turmoil will have a far greater chance of surviving supply line disruptions, furthermore, their brands may receive an increased amount of loyalty as other companies will begin facing price markups, lack of inventory, and a sharp rise in almost all aspects of the supply chain. Businesses that stockpile early will gain **more leeway to the price markups, supply issues, and brand perception** as they will have a greater breathing room with resources not available in the warring marketplace. Stockpiling is not an easy fix to a trade war, but it does allow businesses to have more decision power in how they will adapt to the global markets at the moment.

2. Analyze

Now is the best time to cut your costs and begin surveying the world for developing markets that can be an alternative to your sourcing and supply of goods. Only the most flexible and well-planned businesses may see their way through the crash of globally dependent market systems, by playing to their strengths and the opportunities that the competition is not seizing. For instance, since the beginning of October, the US has imposed new sanctions on China restricting its semiconductor industry and forcing all American employees to resign from their positions in this industry. While this has caught some companies by surprise, you should begin



expecting this adversarial position to grow, and as an executive, begin planning around the decoupling of the two economies. Creating a lean and profitable **business model that is not completely reliant on either market and instead is taking opportunities in developing nonaligned nations** can see your business flourish in a time of instability and have the resources available to return to these markets once the confrontation has subsided.

3. Diversify

Vietnam, Indonesia, the UAE, Argentina, Brazil, Italy, Botswana, Ghana, and many more are all emerging markets that each are shaping to become industrial powerhouses for the global market leading into the latter half of the 21st century. Vietnam in particular has a massive labor force producing cheap quality goods to the expense of Chinese companies falling behind the mark. With huge investments from both sides of the conflict, these nations will prove to be the future of a non-aligned and business-oriented global future. Outsourcing production and supply from these nations is not a simple task and requires at least a year of research, development, and logistics planning before full implementation and diversification can begin to take place. Business leaders must begin to **plan for diversification** and **do their research in emerging global markets that may serve as alternatives for their company's goods.** During a trade war, with massive price hikes and stagflation, consumers will flock to the companies and brands best prepared, equipped, and responsive to the situation. Don't fall into the list of companies who waited or hoped for the best possible case scenario.

It is your job as a business leader to be prepared for what others are not, and to keep both eyes open for opportunity and calamity.

We know it isn't easy to learn, predict, and navigate through such unstable times, at **Davos Financial Group** we provide quality consultations to our members to ensure their profits are safe and secure long into the future.

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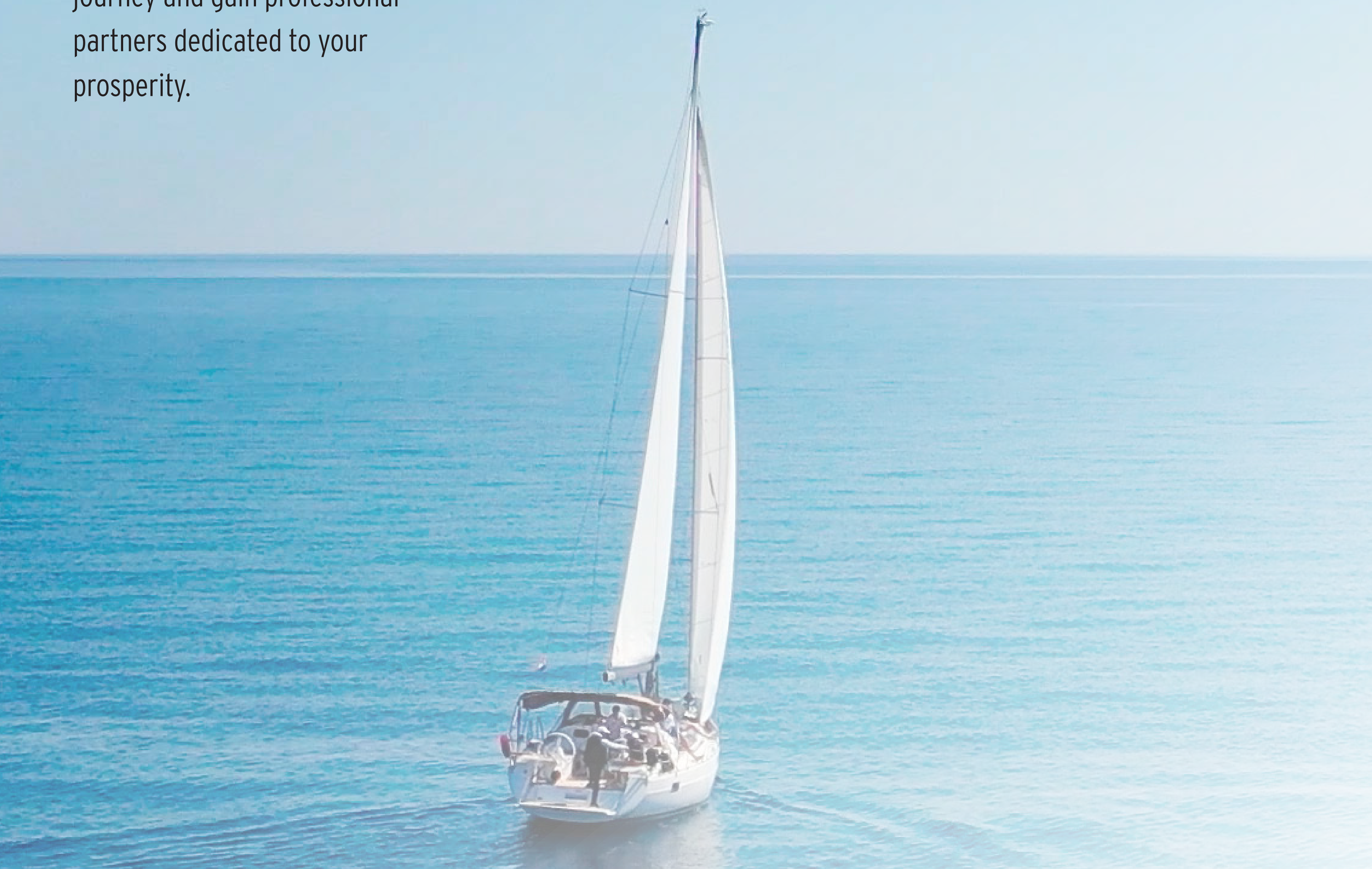

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