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Tariffs – opportunities amid the chaos?

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On the back of President Trump's tariff announcement ("Independence Day"), a massive dive across the world's stock markets drove panic to huge levels. But was that panic really necessary? So many experts have claimed for years that trade tariffs were the worst thing a country could possibly do against its own economy, yet, if the tariffs announcement has revealed anything, it is that many countries were already using them, especially those doing rather well for themselves.

While it is certainly true that business hates uncertainty, investors love it – volatility is where the real profit is to be made. It is this type of scenario that gets the likes of Warren Buffet out of bed in the morning. Of course, investors are not countries, and there are many country leaders who are very nervous right now due to the threat of high tariffs on their economies. However, the only real chaos for countries presented with trade tariffs comes when they have heavily leveraged their surpluses with the country issuing them.

The two biggest reactions to the US tariffs came from China and the EU. The EU has been heavily leveraging its surplus with the US to prop up its losses against the euro, as a result of bad policies. The EU called Trump's tariffs "*a blatant violation*" of 'Most Favoured Nation' rules and yet, does not feel that its blocking of goods from the US for years constitutes any form of infringement.

China, which has had little choice but to leverage its surplus with the US having lost two of its three economic policy pillars (one being its infrastructure industry and the second being its property market), reacted with retaliatory tariffs – a game not yet concluded. China's response does appear panic driven as its export market (its last economic pillar) was the only one left making money (a lot of it) and Trump has just targeted that.

Second-order effects

As a result of the US tariffs, entities like the World Trade Organisation (WTO) are now being pushed into irrelevance, if for no other reason than the so-called 'Most Favoured Nation' rule (MFN). This rule states that if a member country offers another member lower tariffs and/or fewer import restrictions it must do so for all members. In theory, this was to ensure that smaller countries would not be left behind because they would not have enough trade on offer to negotiate similar deals. However, such a rule only works well if all members follow suit, but as has now been revealed, many have not been.

By deciding that the US will now set its own bi-lateral trade deals (note Trump will not deal with the EU as he does not see it as a government), countries will no longer be able to leverage US debt to their advantage while weakening the US economy.

But are there opportunities amid the chaos?

It may come as a surprise to anyone bombarded by the hoards shouting via the media that the world is coming to an end, that there are always opportunities which come about through significant world changes. At first, the new tariff regime appears to target all regions of the world to one extent or another. Nevertheless, with quiet, calm deliberation, it is possible to see areas where positive trade opportunities for countries do exist.

At first glance, the Association of Southeast Asian Nations (ASEAN) looks to have been hit extremely hard by US tariffs which must mean a huge recession is just around the corner for the region, right? Not so. Yes, Vietnam has an extremely high tariff looming over it; so high, in fact, that were those tariffs realised, Vietnam would collapse overnight. Vietnam (as did many others) allowed China to use its lower tariff rate by dumping cheap goods on its market and selling them as Vietnamese.

It should be noted that while such activity gives the impression that GDP is experiencing stellar growth, the growth is hollow. Vietnamese workers are not being provided good employment where they can earn a living and pay taxes into the system, and the government is not realising the necessary funding it needs to build/modernise infrastructure. This is why Vietnam is desperately trying to negotiate 'zero for zero' tariffs with the US, its GDP cannot support any tariffs at all, and the chances are high they will get that deal. However, they will have to provide guarantees against Chinese product dumping, among other things.

The same can be said for both Thailand and, to a far lesser extent, Malaysia. Fortunately, none of the ASEAN members reacted with retaliatory measures and all will send delegations to Washington. The practical upshot will be, essentially, that China can no longer use other countries to avoid paying for access to the US market, and those countries with high tariffs will be able to negotiate them down. Who knows, the end result could provide even better terms and additional trade.

The Gulf States – Gulf Co-operation Council (GCC)

This was good news for the Gulf States, more so even than the zero energy and energy shipping tariffs. The only tariff the GCC will have faced is the standard 10% on exports to the US, but this is barely 3% across the whole Gulf region. Given the tariff exemptions for the GCC, the Gulf markets are very well shielded and positioned to benefit from any economic impacts. In fact, the Gulf markets actually experienced gains just after the tariff announcements as a result.

Focussed on long-term trade and co-operation with ASEAN, these two groups are again seeing the benefits from the strong relationships between them. No doubt the GCC will be happy to assist in negotiating better trade tariffs with the US for some of their Asian partners.

Conclusion

So, with the Gulf States acting as a gateway station hub between East and West, North and South, while continuing to develop trade and co-operation with ASEAN (after tariff negotiations) there will be less need – or call – demanding that either group take a side between the US or China. If all players within the two groups remain balanced and calm, the long-term benefits are clear to see.

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