

## The Outlook: March 7, 2018

### *“Global Trade Wars!” versus golden rules.*

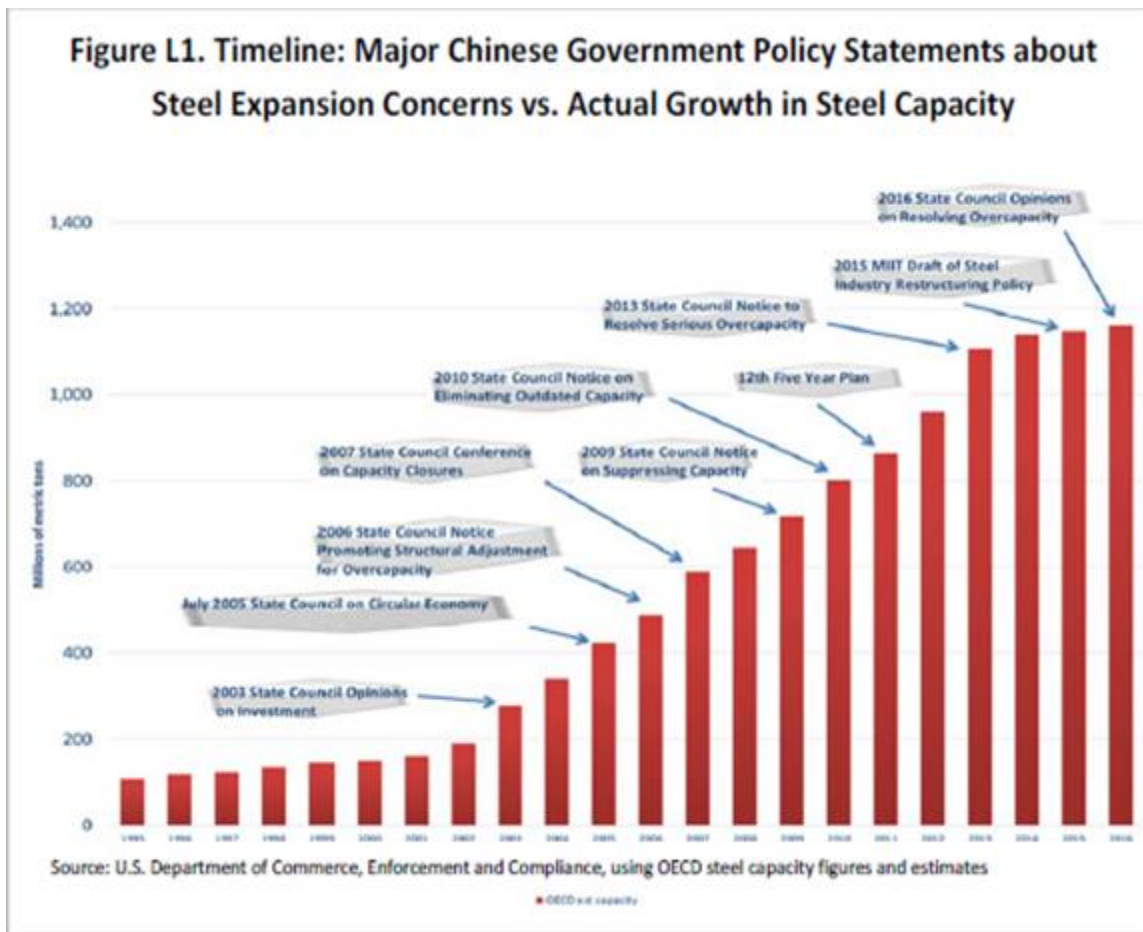
One of the golden rules for investment success is: “Always take the trouble to look at the whole picture, not just the corner of it which the world is shouting about, at the moment.” Like golden rules for every part of life, most of us just don’t do it. Looking hard at the whole picture takes time and effort, while whatever corner people are shouting about at the moment usually feels like it demands urgent action.

The latest “corner of the picture” whipping the market around and down is the President’s instantly-infamous tariff announcements. We might never have known there are so many passionate fans of free markets and free trade in the world, until the tariff news set off a tidal wave of criticism and complaint, from politicians to editorialists to White House economists. At Outlook we are pretty passionate fans of free markets and trade, ourselves . . . but not so passionate that we’ll ever ignore the golden rule about seeing the whole picture, which certainly seems to be what 99% of the market crowd is doing.

The bare facts:

- The President announced 25% tariffs on steel and 10% on aluminum, applied to every single country attempting to sell those items to the U.S. “Global Trade War!” “Smoot-Hawley Lives Again!” and “Risk of Worldwide Economic Collapse!” were typical of that tidal wave of immediate criticism. The market instantly fainted, revived somewhat, then spent the next few days staggering around under the burden of the terrible news.
- The 1930 Smoot-Hawley tariffs—which certainly deepened the market crash and Depression—covered 900 items and averaged 50%. So the President has 898 items to go, and more than double the tariff amounts, to catch up with Smoot-Hawley.
- Despite stridently joining the tidal wave of criticism, the world’s political leaders know perfectly well that President Trump’s tariffs are a mild, decades-delayed response to rampant dumping of steel and aluminum into the U.S. market by a great many countries: from Europe to Asia to Latin America. They know perfectly well that China has been the worst offender at making steel and selling it at big losses all over the world; and they know perfectly well that for the past 10 years China has dodged criticism by selling its steel to non-U.S. buyers, which turned right around and sold their steel (mostly at a loss) into the U.S. market. Hence the “blanket tariffs” on everyone, and not just China—because it’s perfectly obvious to everyone that “targeted tariffs” (on China alone) are easily bypassed. That’s a lot of “perfectly obvious” knowledge, but we would never know it from the lion’s share of the loud criticisms—with some of the loudest coming from the EU, which just last summer hiked its tariffs on Chinese steel to 36%--without hearing “Global Trade War!” and “Risk of Economic Collapse!” from anyone.

Here is the story of China’s determination to talk, but never act, when it comes to over-producing steel and dumping it at losses covered by the government:



It shows 21 years of government pronouncements, triggered by global complaints, about its plans to cut China's steel-making capacity. As the red bars of skyrocketing steel production show . . . the talk was constant, but the actions didn't exist.

The lesson to us investors from all this is pretty straightforward: the political leaders all over the world making threatening remarks about "global trade war" and "retaliation" understand this "whole picture" very well. But politicians mostly say what seems popular at the moment, and the whole factual picture of determined, widespread violation of anything like the rules of free trade looked like a harder sell than "Retaliation!" What the rest of the world's political leaders actually do, though, seems very likely to fall into the category of "Much noise, minor actions." Outlook strongly suspects the market is grasping that, too, regardless of its fainting spells.

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