

Trade Wars and Government Shutdowns Can Be Fishy Business

We have written with some regularity about the consequences of trade wars.



The Apple story and the potentially larger economic slowdown in China are a case in point. There are consequences to all of this for all parties involved. In general, we do support free trade in the ideal world where there are no barriers to trade. Basic economic theory suggests that these friction costs disrupt the maximum benefit available to all people when those who can produce most effectively and efficiently are not properly rewarded, thereby driving up overall costs for consumers. With lower or even no trade barriers, the law of comparative advantage is allowed to work unimpeded.

But theories can become problematic as the messiness of politics and practical concerns such as product quality, labor fairness, and environmental considerations are added to the equation. President Trump's decades-long interest in seeking fairer trade deals for the US with other countries is now being acted upon, creating a disruption of the status quo,

which in turn creates shorter-term uncertainties. Whether the long-term scenario is destined to create freer and fairer trade among countries as a result of the current trade negotiations and brinksmanship is yet to be known. We do know that it takes a fair amount of chutzpah to challenge the status quo in trade, even if the potential benefits are to lower overall trade barriers in the long term. However, the president seems to have a ready supply of chutzpah. We, like many others, are monitoring the trade war situation that impacts the financial markets so heavily.

In the meantime, there are the really practical concerns of trade uncertainty, many of them very unpleasant, that are felt at the business and entrepreneurial levels. Markets and businesses prefer certainty in order to chart the future and to make plans. Uncertainty slows down business and puts people and markets into a wait-and-see mode of operation focused on risk management and capital preservation. Adding tariffs or even threatening more tariffs has specific short-term consequences, creating disruptions and costs that will ultimately reach the consumer in real ways. There are hundreds of anecdotes of the personal costs playing out now across many industries as a result of these trade uncertainties.

As one example, we know of a situation in the international fish-brokerage business (quality fish deliveries here, nothing "fishy" about it) where the uncertainties of tariffs, coupled with the government shutdown, have delivered double uncertainty and added costs, imposing a one-two punch. As the 10% China tariffs kicked in, including a tariff on fish imports, the threat of the 25% tariff became very real. Some brokers negotiated early shipping and delivery to help customers avoid the 25% tariff. When that tariff was postponed in early December, customers saw no economic reason to take early delivery. This disconnect rendered product that was in transit temporarily unwanted, causing some consternation for the brokerage. The trade relationship is therefore tested, as

significant daily storage fees per container are then added to costs.

Adding to the equation, the government shutdown means that Homeland Security agents are not able to perform their surveillance checks on the containers. Product is sitting in port (refrigerated, obviously), creating further delays in the resolution of the situation. This is a case where the government shutdown has actual business costs that are not just inconveniences to consumers and government workers. These types of anecdotes are stacking up across the spectrum of businesses with international and trade connections.

We can only hope that the trade uncertainty gets sorted out soon for the benefit of all involved and certainly for our friends in the international fish business. The ongoing discussions with China, if resolved in a workable framework, will certainly alleviate much uncertainty and may also provide some needed risk appetite to the financial markets. The economic picture has been in recent times very robust. However, we are now seeing potential slowdown (cue China and the Apple shortfalls in sales) that means all of this brinksmanship has consequences on both sides of the world. Maybe it is time for somebody to blink and get moving toward resolution. Trade resolutions could put significant wind back into the sails of a stock market that has seen a nasty selloff in recent weeks. That aside, getting the government back to work is also an immediate priority for very practical reasons like import processing and other business/security functions. We will stay tuned into the investment-related aspects of these very important concerns which have market implications for the many years going forward.

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