

# Trade wars lead to MAED

The Cold War between Russia and the USA was premised on a critical acronym known as a MAD, which stood for “Mutual Assured Destruction” in reference to the nuclear arsenal of each country and that any hot war between them would mean annihilation for both countries.

The current trade spat between the USA and China is an extension of MAD now coined MAED or “Mutual Assured Economic Destruction”, which begs the question: If Xi and Trump know this, why continue to push the boundaries?

The answer to this question is best epitomised by the concept of “playing chicken” when two vehicles race towards each other to certain death unless one of the parties comes to his senses and “chickens out”. Of course, the “chicken” survives, but has lost the battle with the spoils going to the victor.

“Chicken” is a dangerous game, which can easily spin out of control even when the intention is to avoid a collision at all cost and this is the situation we currently have, both countries know a trade war is a lose-lose situation, but neither country is likely to give way.

The problem for the global economy, which feeds directly through to global stock markets, is twofold, firstly the uncertainty results in risk-off behaviour as business adopts a wait and see approach to any new investment and secondly supply chain disruption. Globalisation has resulted in an interconnected world of production



## Money Matters

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where components making up a final product are sourced from all over the world. Made in the USA is more like assembled in the USA.

The final cost of a trade war is Chapter 1 economics. Any protectionist policies be it tariffs and/or trade restrictions simply result in uncompetitive behaviour adding cost and inefficiency to the global economy, which has greatly benefited from the efficiencies of globalisation.

Keep in mind, I am scratching the surface of a topic, which is only a symptom of a much bigger century defining happening and that is the rise of China as the number one player in the world. In 1817 Napoleon said: “Let China sleep; when she awakes, she will shake the world.”

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