



# (Trade) wars...

...what are they good for?

**Matt Parlour**  
Insights Strategist



# Learning Objectives

Following this presentation you will be able to:



Understand the importance of global trade & the potential threats that exist to this trade



Consider whether a trade war is more (or less) likely following the US election



Discuss the global outlook for inflation & economic growth

## The importance of global trade & the potential threats to it



# Key talking points on trade



**Why trade matters**



**Supply chain disruptions**

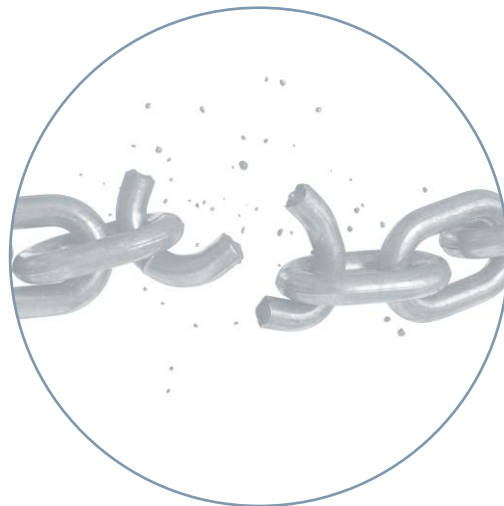


**Barriers vs deals**

# Key talking points on trade



**Why trade matters**



Supply chain disruptions



Barriers vs deals

# Why trade matters

- Free trade can be a “**win – win**” in economic terms
- Trade can boost economic growth, create jobs and boost tax revenues
- **Acts as a safety net** during periods of volatile domestic production (such as a poor harvest)
- **BUT** becoming over-reliant upon imports can leave a country vulnerable to economic shocks
- **AND** trade can be used by a dominant trade partner to exert political pressure

# Why trade matters

## The birth of modern trade



**TEU = Twenty-foot Equivalent Unit**

- 1952 – US Army develops CONEX
- 1956 – World's first container ship
- 1962 – World's first container port (New York)
- 1968 – ISO standards produced for containers



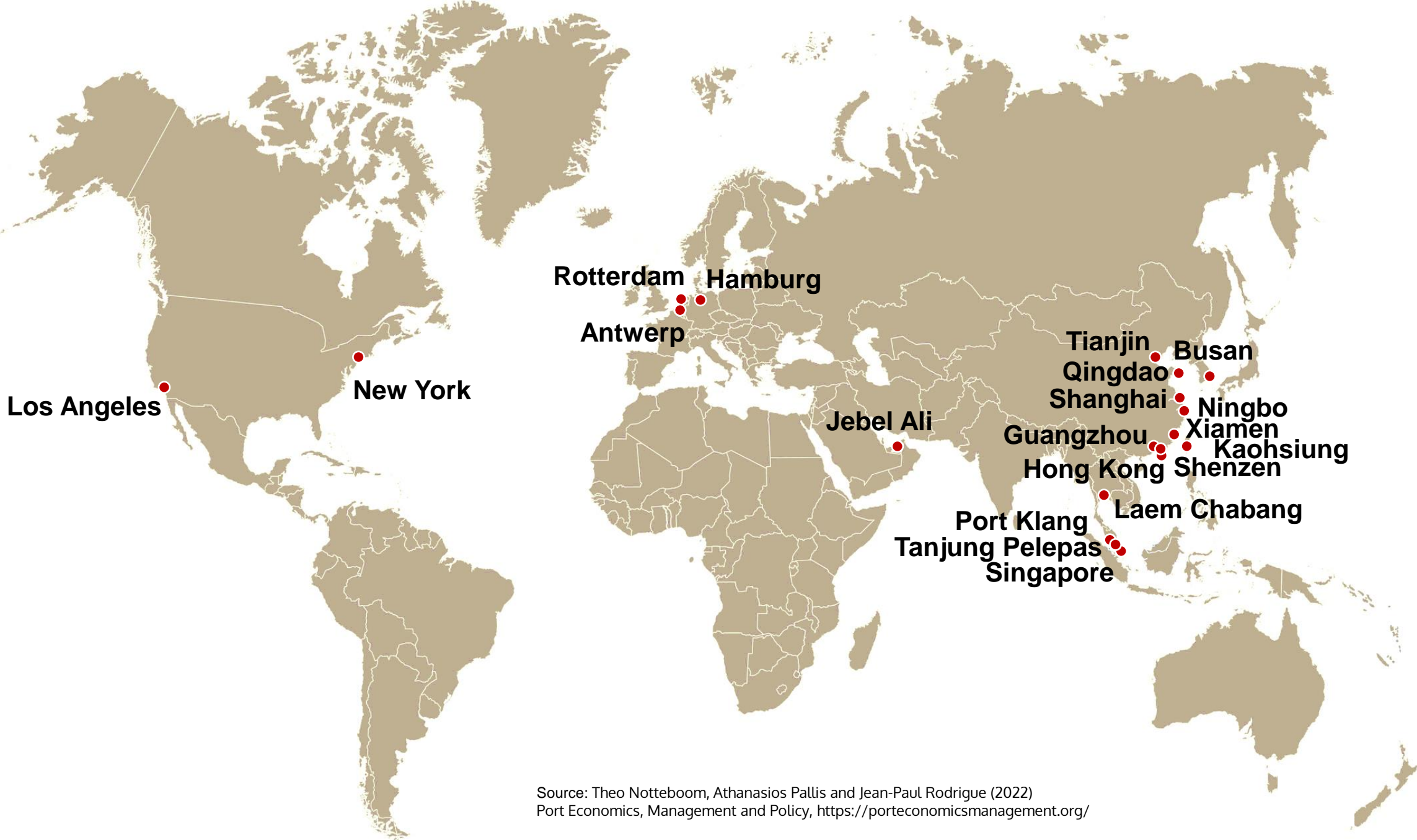


# Why trade matters

## The world's busiest container ports

### Shipping containers per year (TEUs)

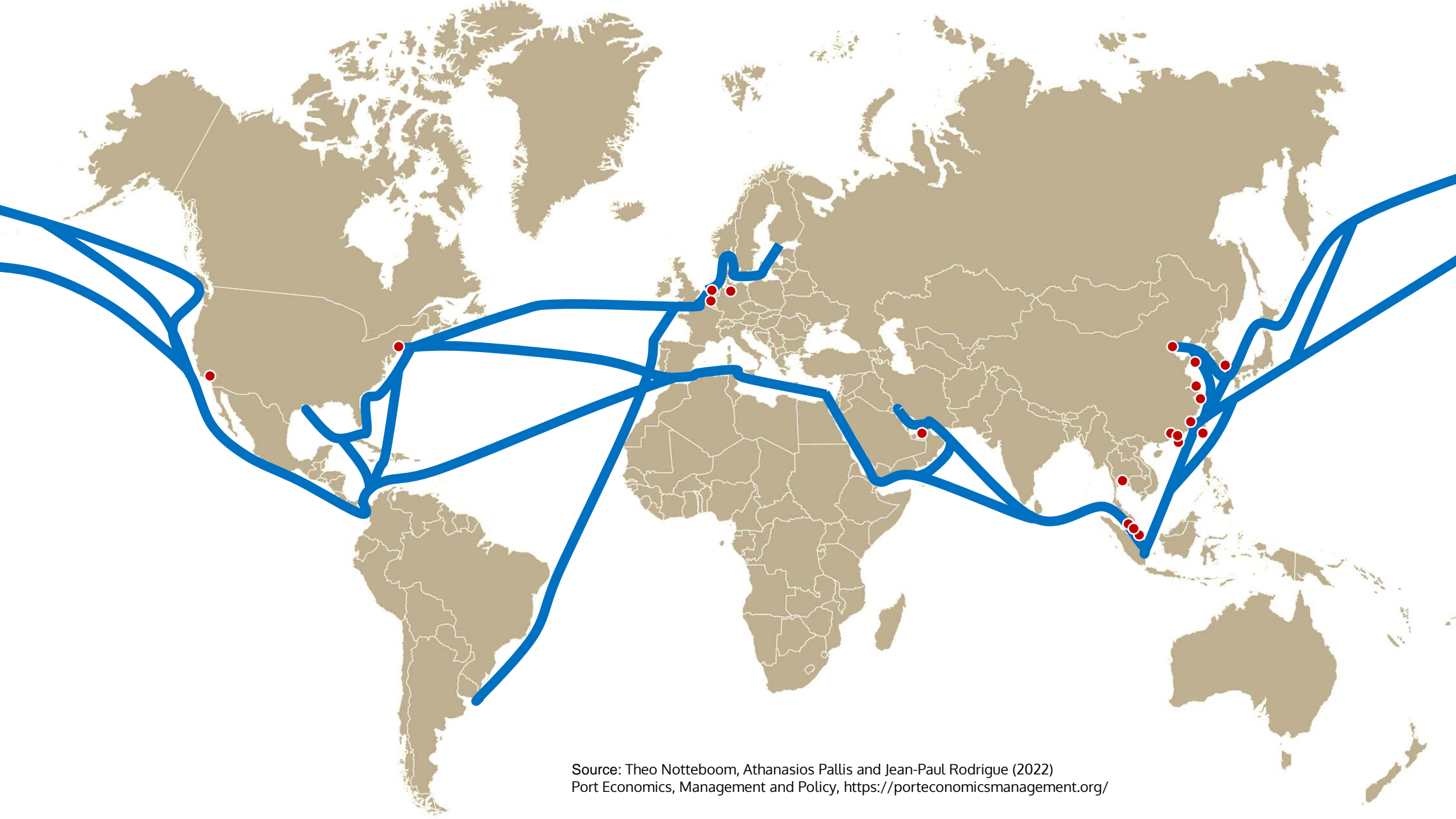
	<b>Shanghai</b>	<b>47.3m</b>		Rotterdam	14.5m
	Singapore	37.3m		Jebel Ali	14.0m
	Ningbo-Zhoushan	33.4m		Antwerp	13.5m
	Shenzhen	30.0m		Port Klang	13.2m
	Qingdao	25.7m		Xiamen	12.4m
	Guangzhou	24.9m		Tanjung Pelepas	10.5m
	Busan	22.1m		New York	9.5m
	Tianjin	21.0m		Kaohsiung	9.5m
	Los Angeles	19.0m		Laem Chabang	8.7m
	Hong Kong	16.7m		Hamburg	8.3m



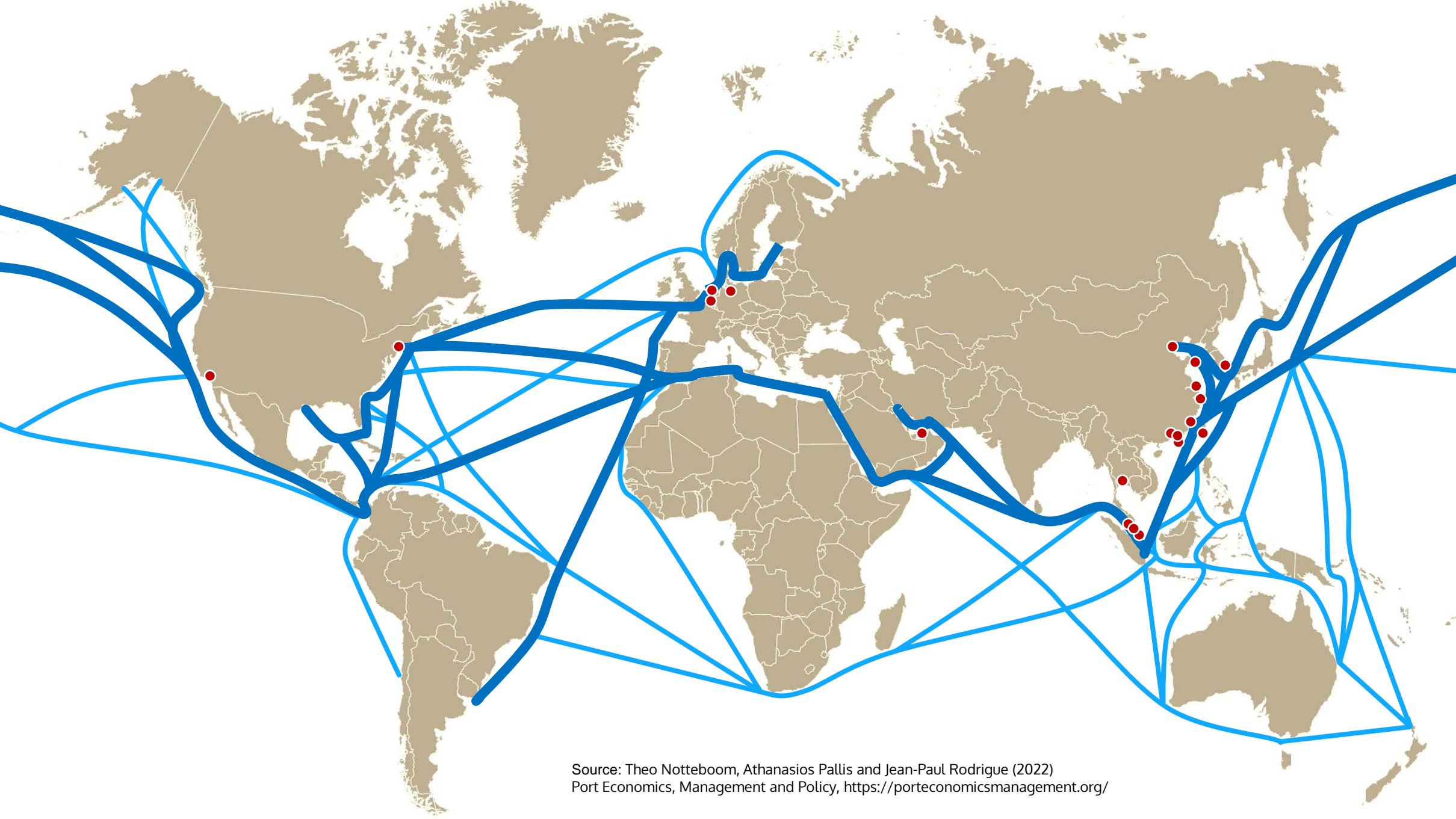
Source: Theo Notteboom, Athanasios Pallis and Jean-Paul Rodrigue (2022)  
Port Economics, Management and Policy, <https://porteconomicsmanagement.org/>



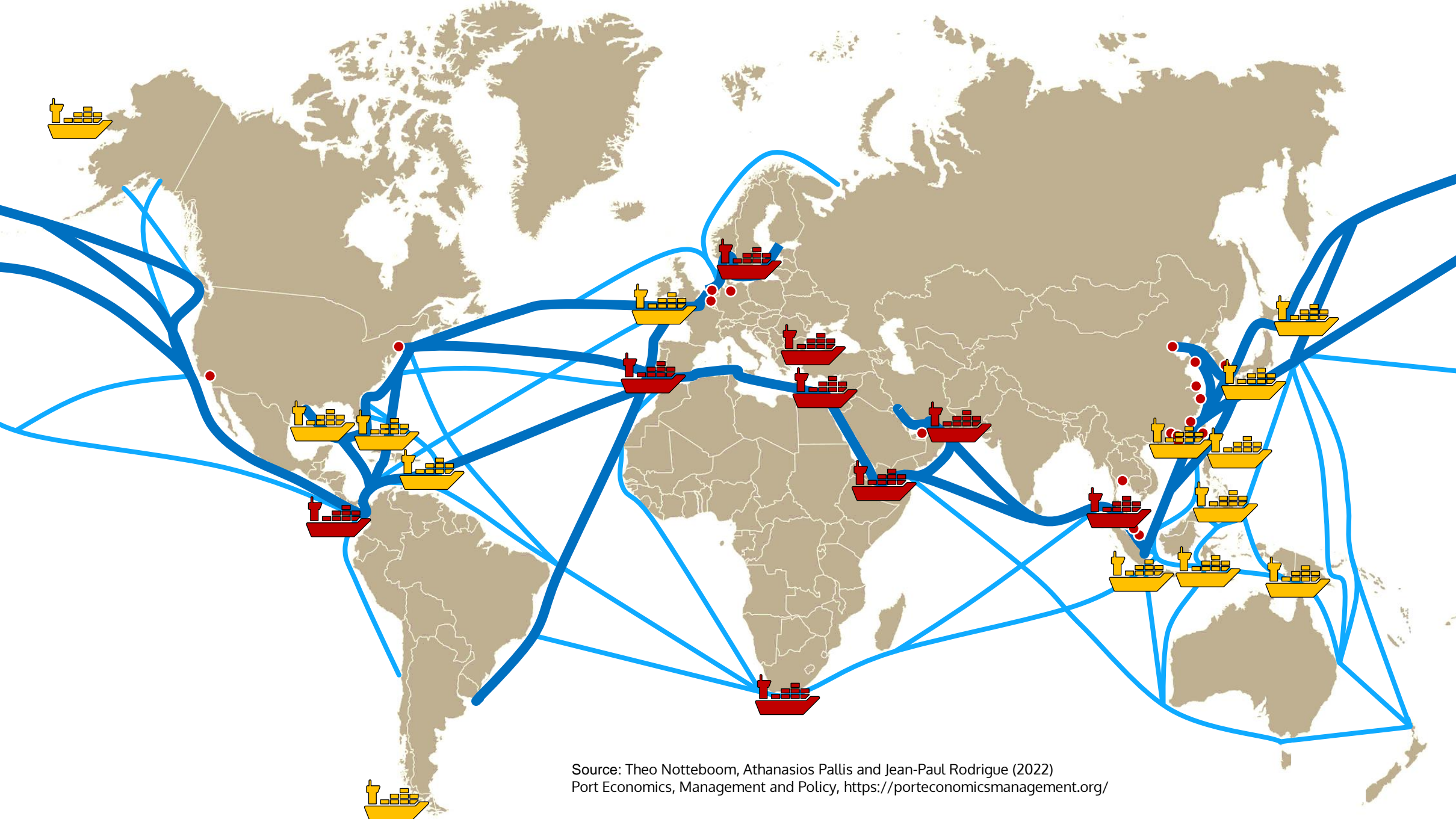
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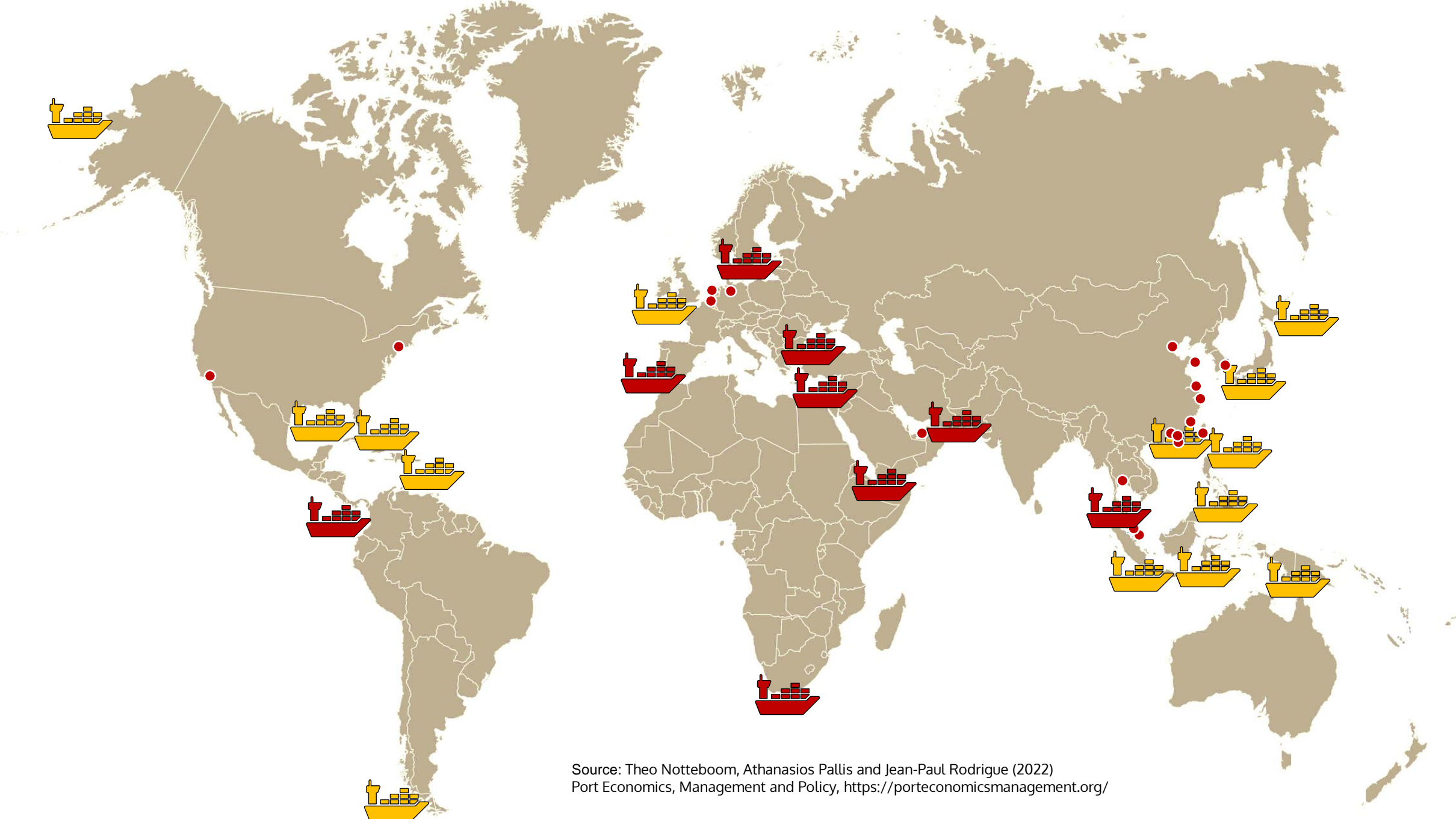
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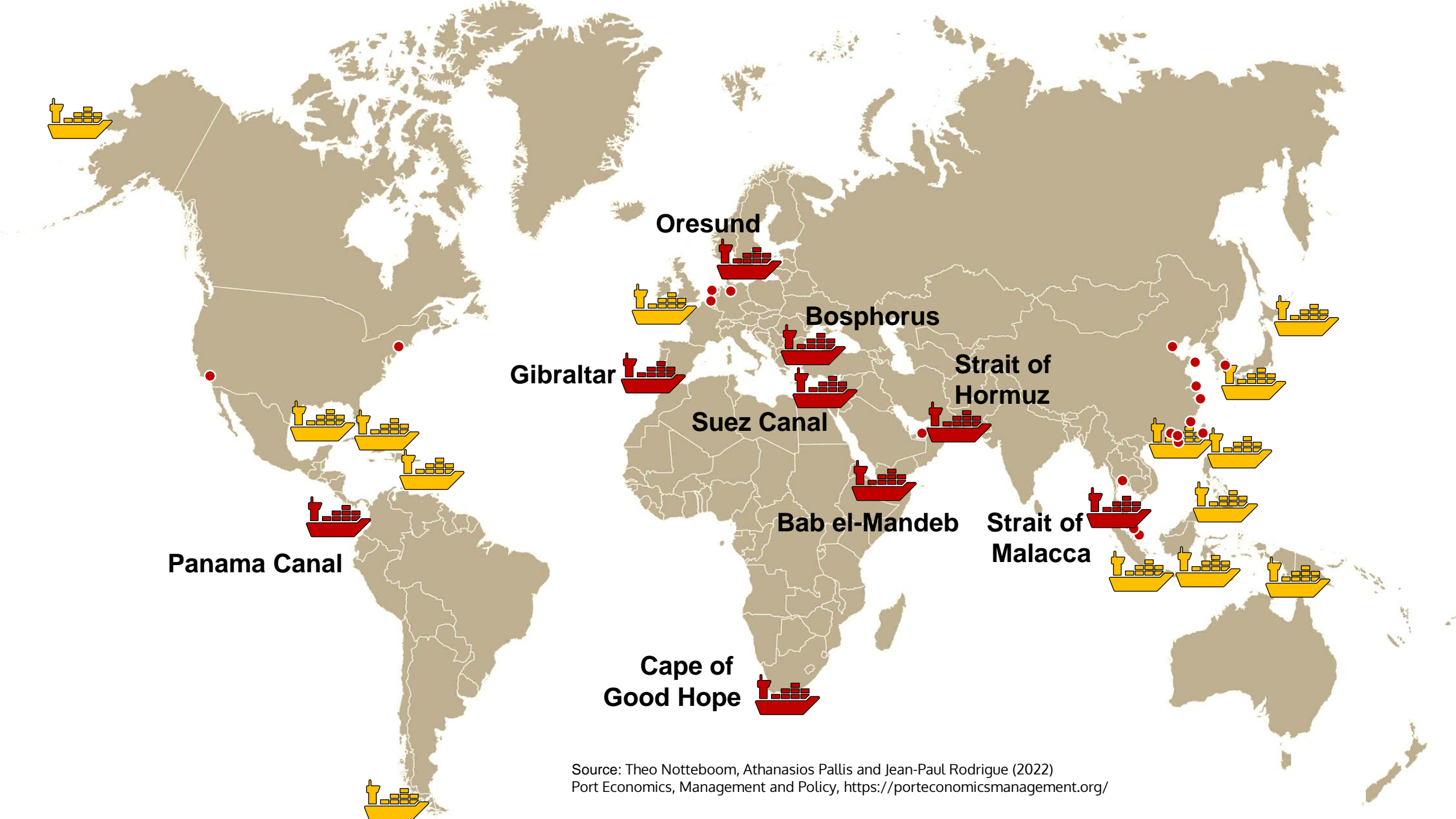
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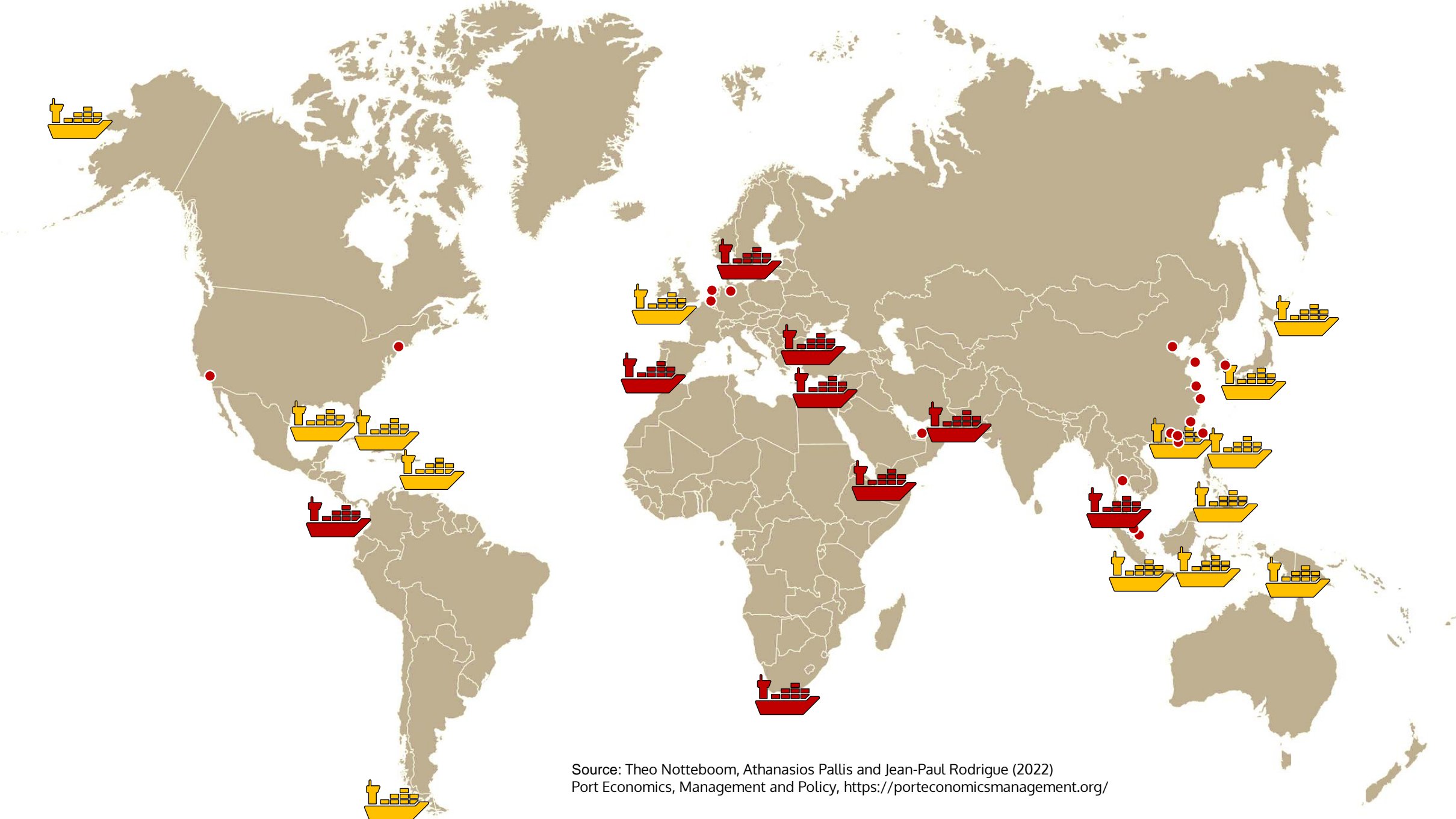


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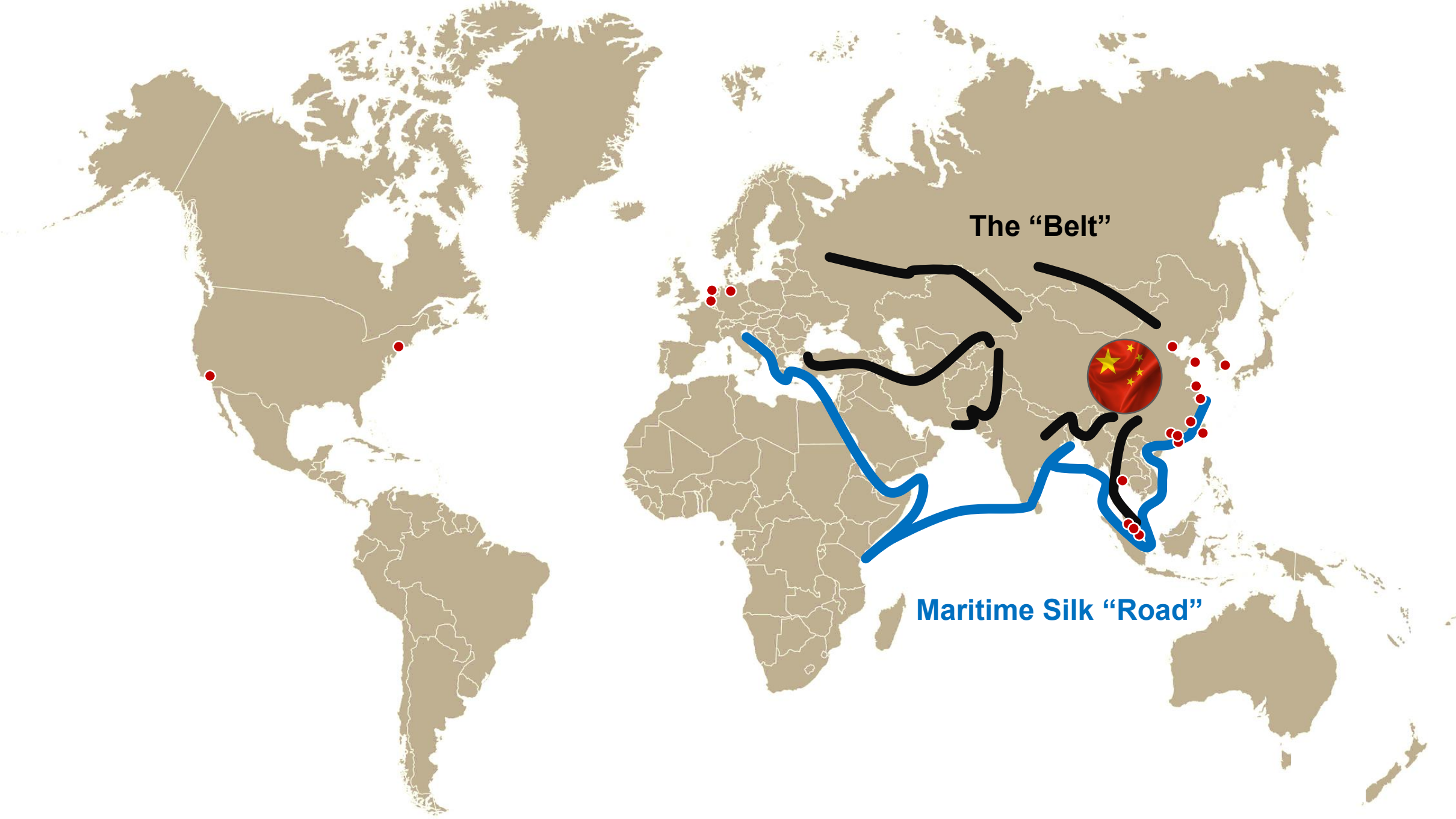


Source: Theo Notteboom, Athanasios Pallis and Jean-Paul Rodrigue (2022)  
Port Economics, Management and Policy, <https://porteconomicsmanagement.org/>

# Why trade matters

## Example - The Belt and Road Initiative (BRI)

- Announced in 2013 with a planned completion date of 2049
- Currently > 140 countries participating (c75% global population / 50% global GDP)
- **The “Belt”:** Six urban development corridors linked by road/rail & digital infrastructure
- **The “Road”:** A Maritime Silk Road linked by the development of key ports



The "Belt"

Maritime Silk "Road"



**New Eurasian  
Landbridge**

**China-Mongolia-Russia  
Corridor**

**China-Central Asia-West Asia  
Corridor**

**China  
-Pakistan  
Corridor**

**China-Bangladesh-India  
Corridor**

**China-Indochina  
Corridor**

## Why trade matters

### Some potential positives of the Belt and Road Initiative (BRI)...

- New infrastructure could encourage additional Foreign Direct Investment (FDI)
- The World Bank estimates that if fully implemented:
  - Global trade could increase by between 1.7% to 6.2%
  - Real incomes in “corridor countries” could be boosted by up to 400%

# Why trade matters

## ...but also some negatives

- Extends Chinese political / economic influence (for example to isolate Taiwan)
- Potential military implications of new dual-use port building programme
- “Debt-trap diplomacy”: below market rates of financing with punitive penalty clauses
- BRI Infrastructure projects expected to add to global carbon emissions

# Key talking points on trade



**Why trade matters**



**Supply chain disruptions**



**Barriers vs deals**

# Key talking points on trade



Why trade matters



Supply chain disruptions



Barriers vs deals



# Supply chain disruptions

Geopolitical events can disrupt global trade

**Pandemic**



**Conflict**

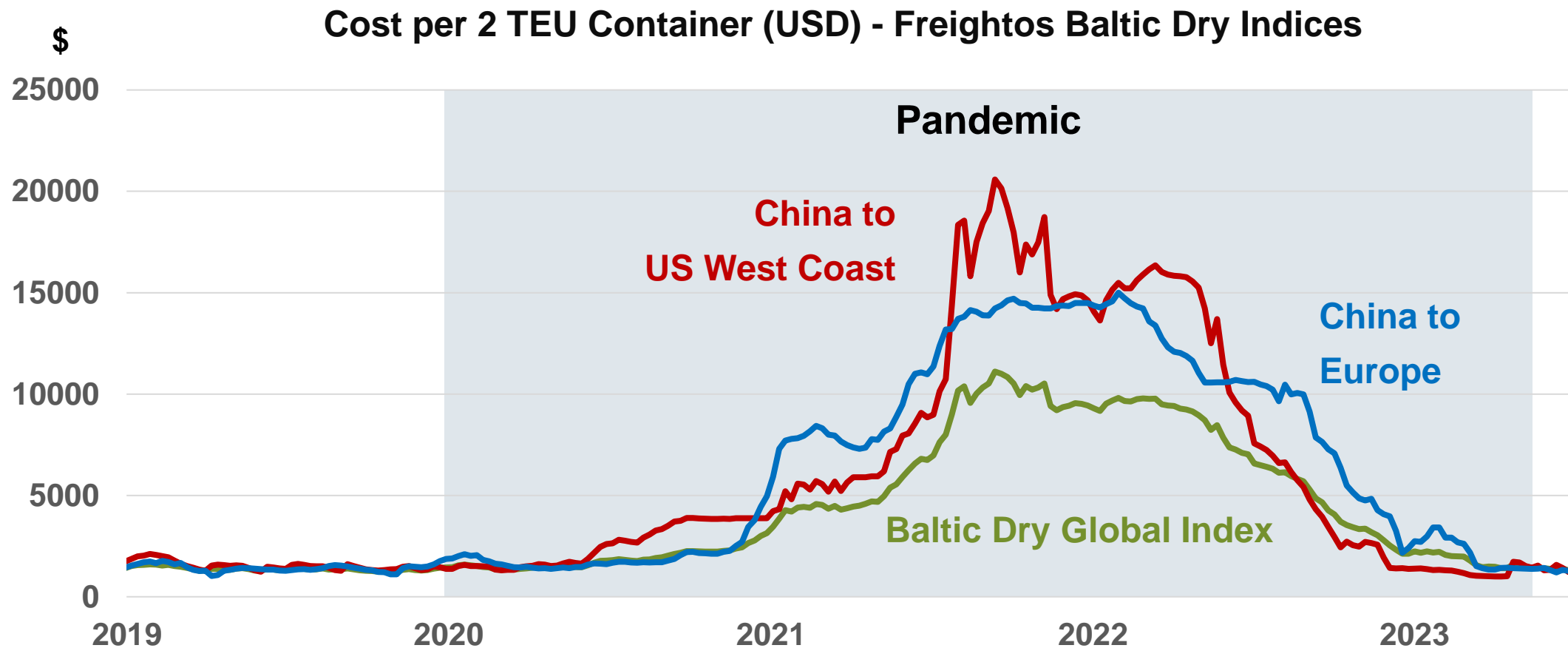


**Climate Change**



# Supply chain disruptions

Example 1 – The Pandemic caused a huge disruption to trade



# Supply chain disruptions

## Example 2 – The Red Sea Attacks: The importance of the Red Sea Route



US-led Operation “Prosperity Guardian”

A significant part of global trade transits the Red Sea

c15%



Global seaborne trade

c8%



Global grain trade

c12%



Seaborne traded oil

c8%

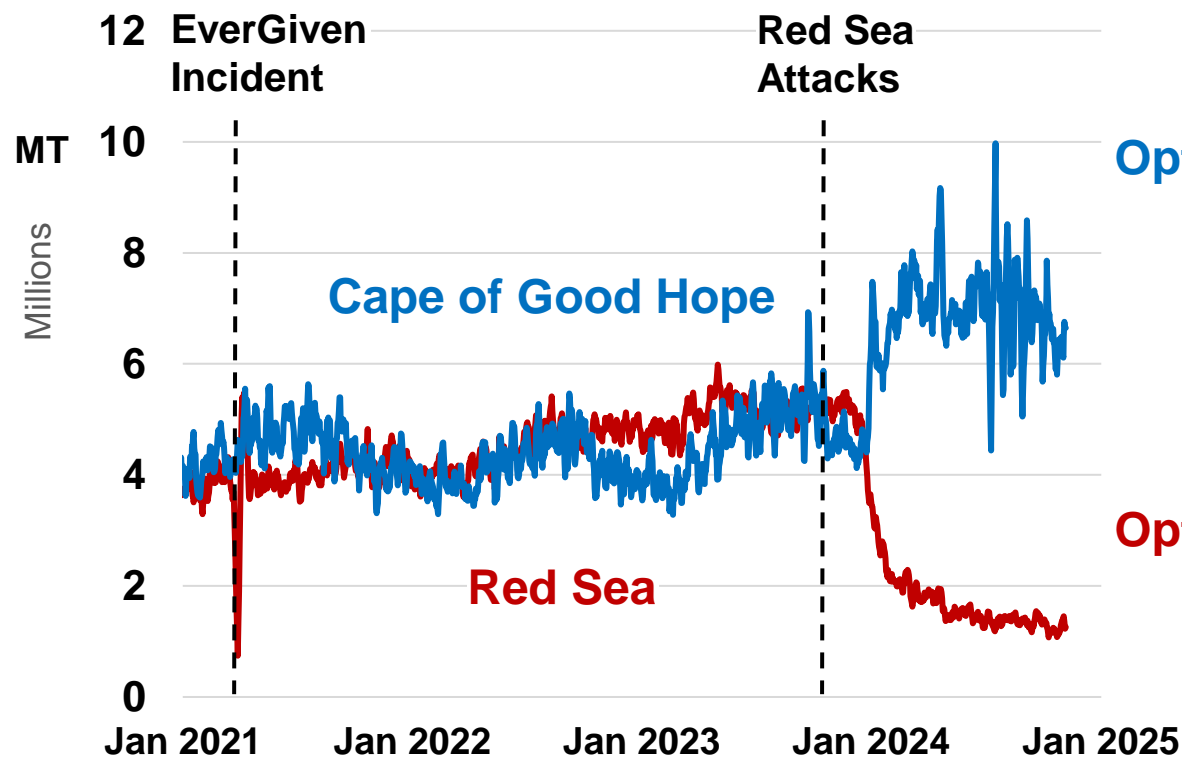


Global LNG trade

# Supply chain disruptions

## Example 2 – The Red Sea Attacks: Trade Volumes

Trade (Millions Metric Tons, 7-day moving average)



### Option A: Divert via the Cape of Good Hope

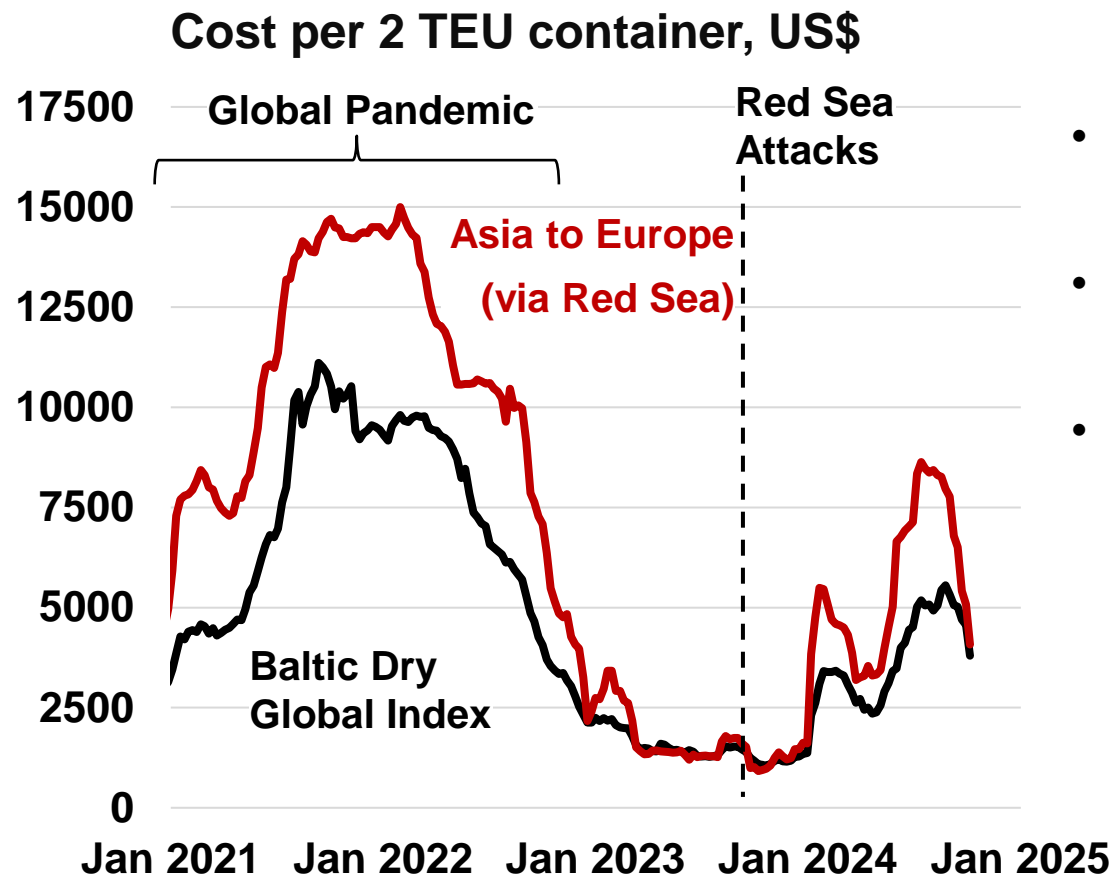
- Extra 8-10 days journey time
- Increased fuel usage (est. \$1m)
- Potential supply chain delays

### Option B: Continue to transit the Red Sea

- Risk of attack
- Higher insurance costs

# Supply chain disruptions

## Example 2 – The Red Sea Attacks: Costs of Shipping

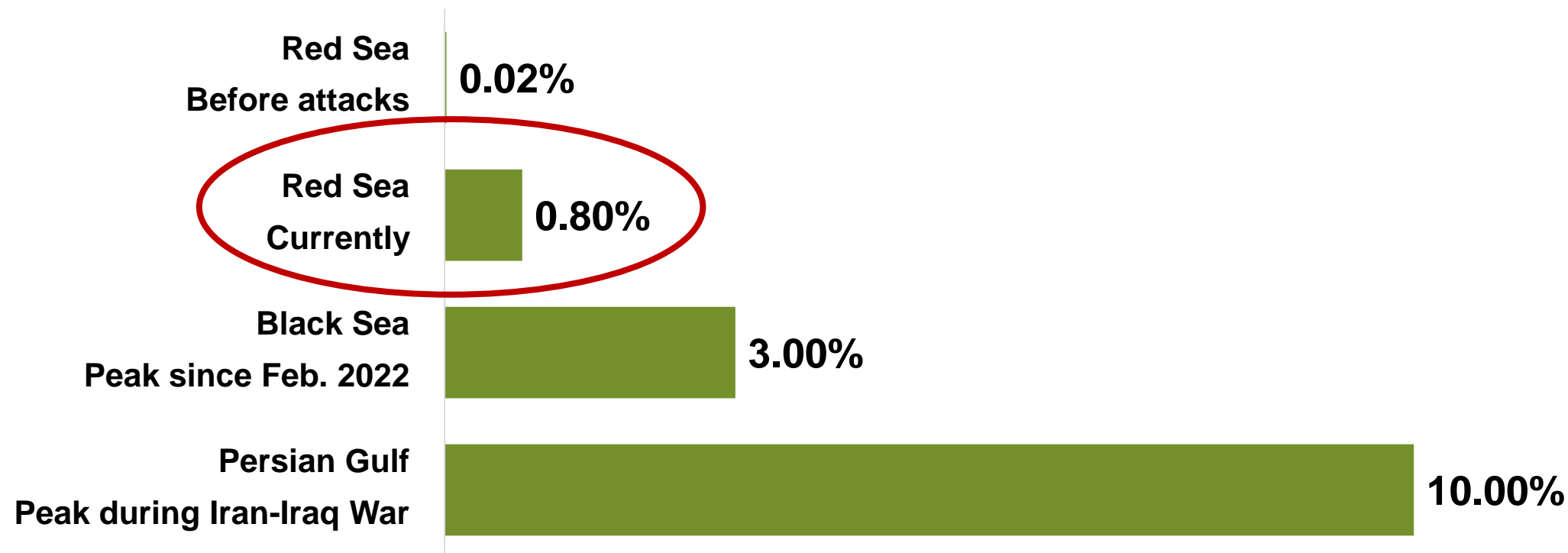


- Shipping costs have risen esp. Asia-Europe
- Costs still below Pandemic levels
- Inflation risk remains minimal...for now

# Supply chain disruptions

## Example 2 – The Red Sea Attacks: Costs of Shipping Insurance

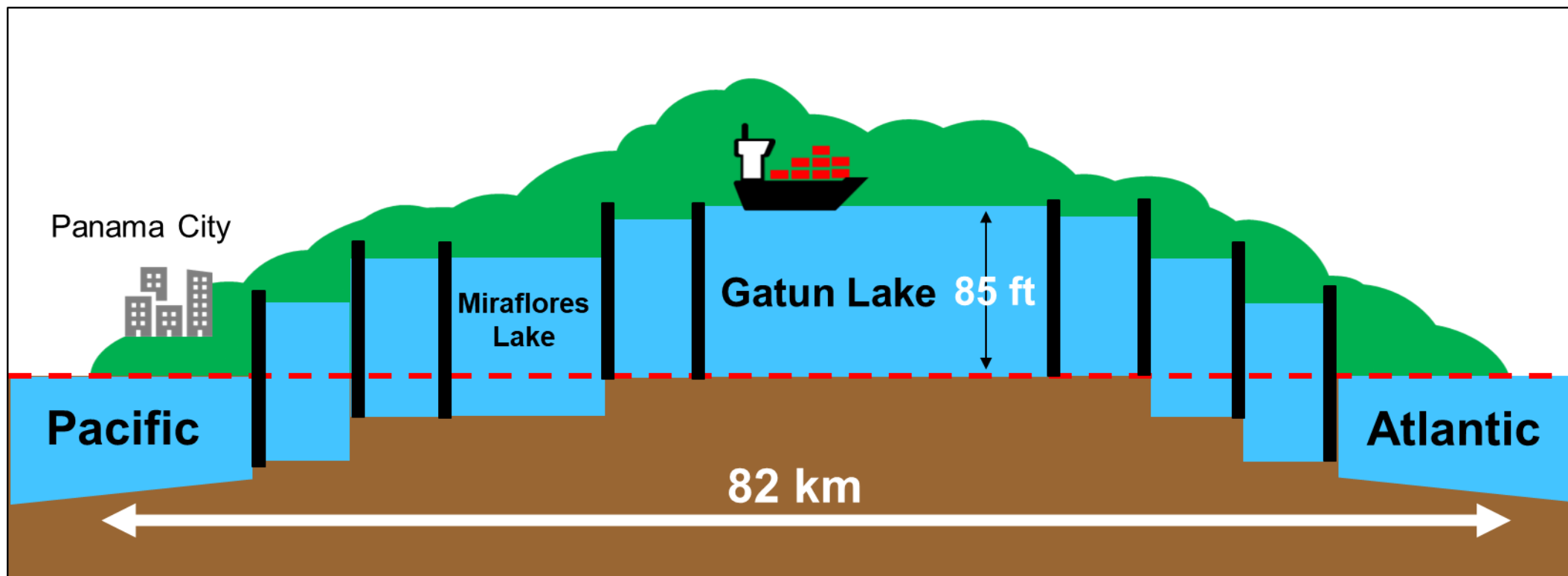
Cost of Insurance (as % of value of ship / cargo)



# Supply chain disruptions

## Example 3 – The Panama Canal Drought

### The Panama Canal



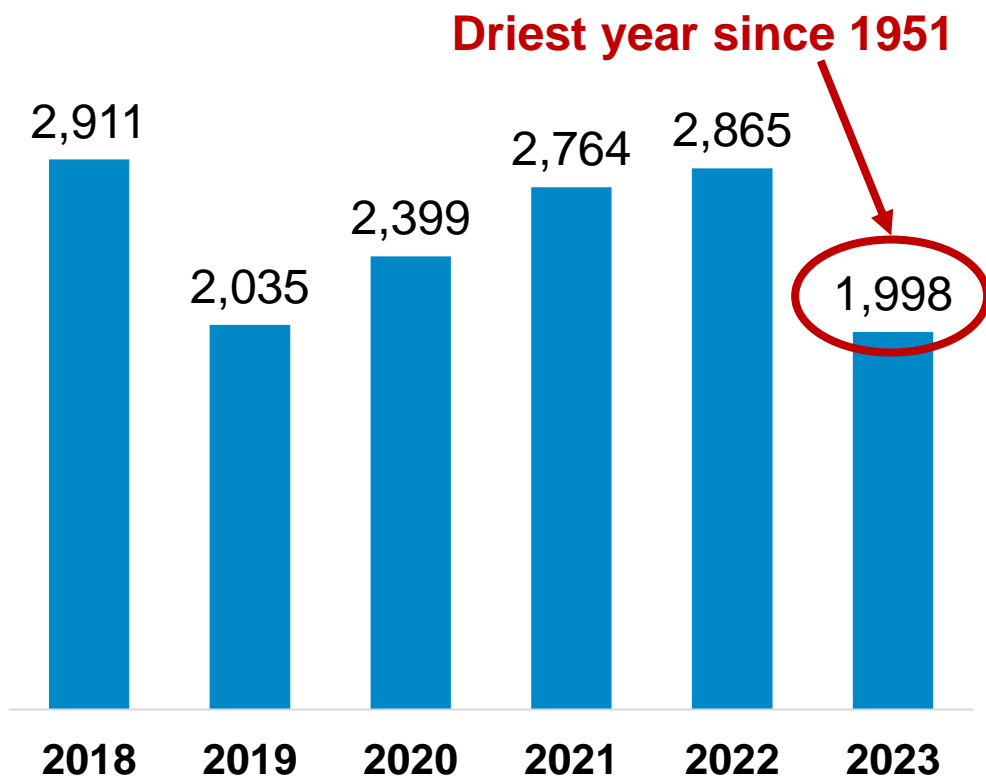




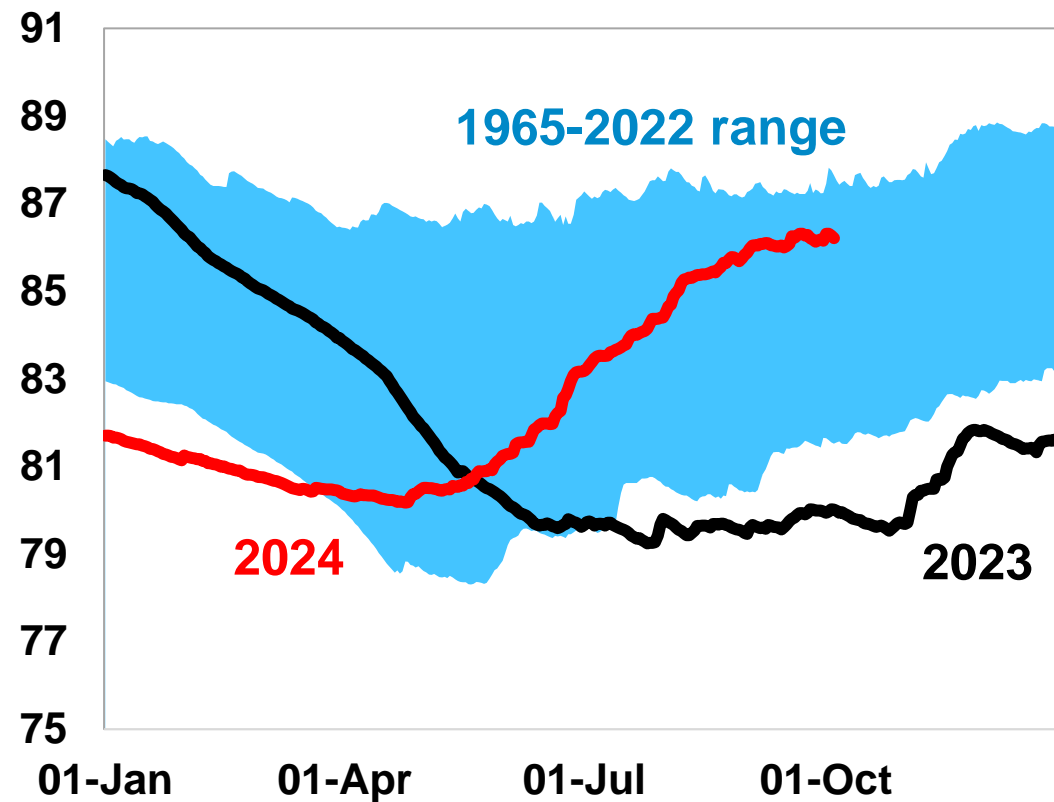
# Supply chain disruptions

## Example 3 – The Panama Canal Drought

Rainfall: Panama Canal Watershed (mm)

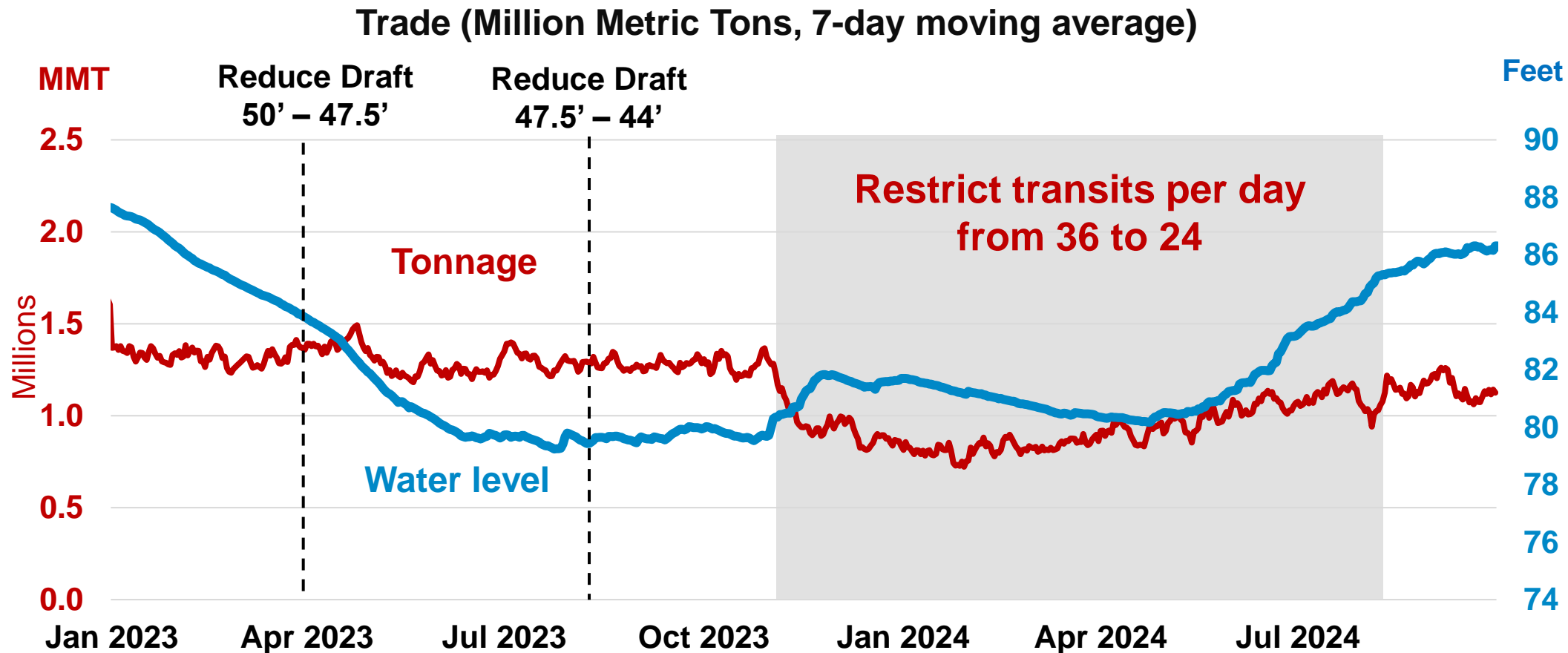


Panama Canal Water Level (ft)



# Supply chain disruptions

## Example 3 – The Panama Canal Drought: Trade Volumes



# Supply chain disruptions

Further escalation of the conflict in the Middle-East is a real possibility



The Strait of Hormuz is vital to global energy supply

c20%



Global oil trade

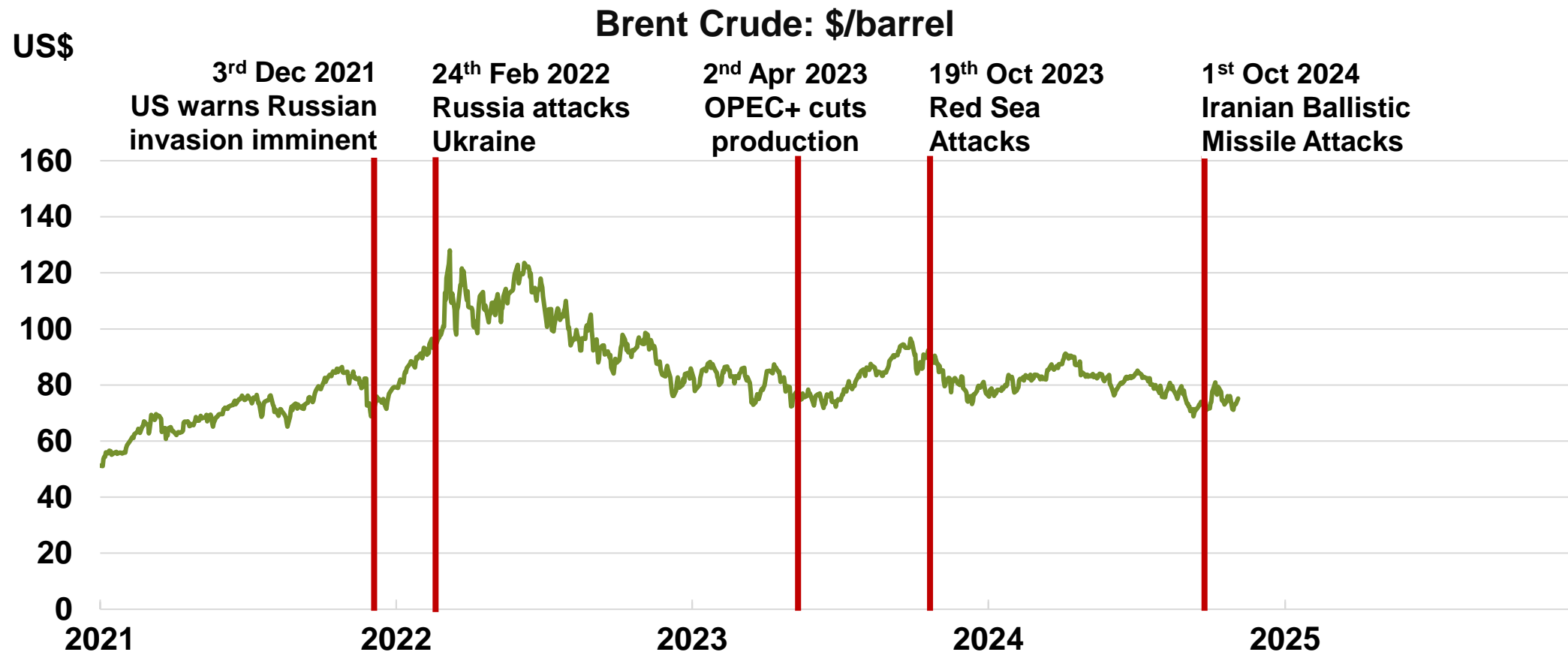
c20%



Global LNG trade

# Supply chain disruptions

Oil price has been relatively stable despite Red Sea attacks...



Source: Bloomberg Brent Crude Closing Price to 4<sup>th</sup> November 2024

# Supply chain disruptions

...and the Gas price is still well below pre-2022 levels

### UK gas price: pence/therm



Source: Bloomberg. Contracts for delivery. Closing price 4<sup>th</sup> November 2024

# Key talking points on trade



**Why trade matters**



**Supply chain disruptions**

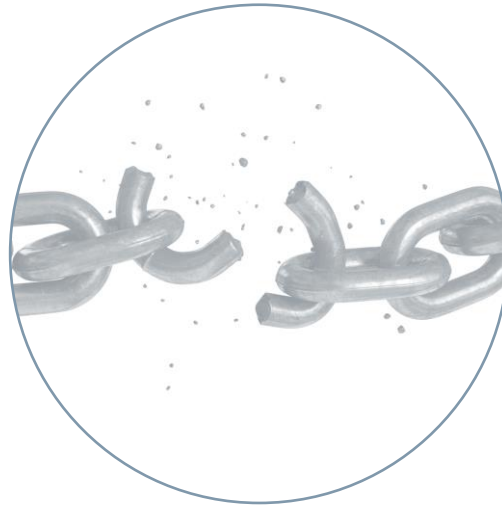


**Barriers vs deals**

# Key talking points on trade



Why trade matters



Supply chain disruptions

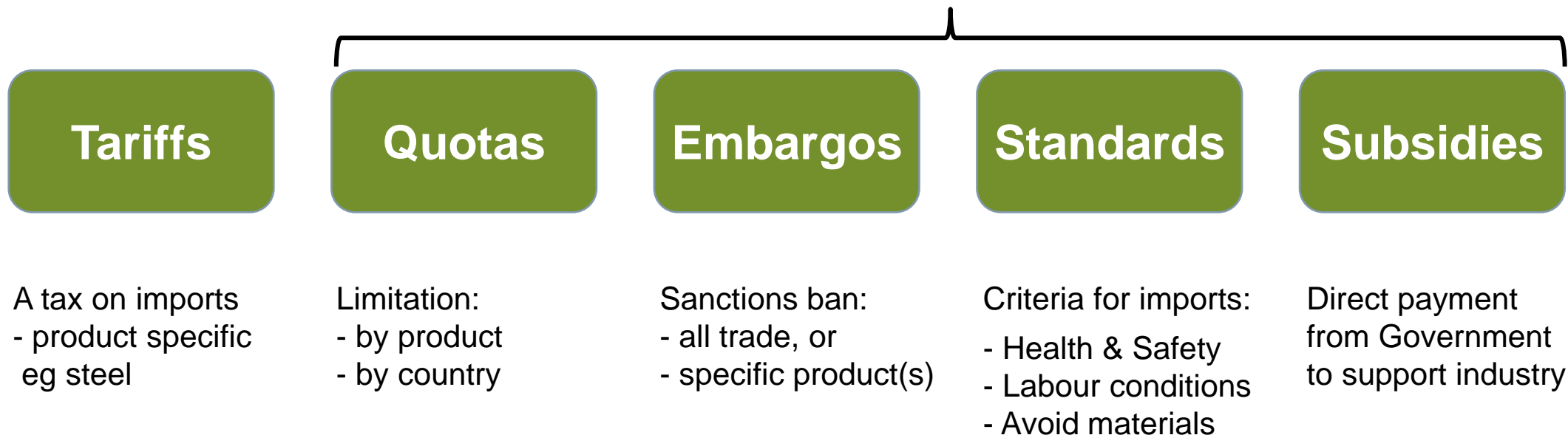


**Barriers vs deals**

# Barriers vs deals

Protectionism can take many forms

## “non-tariff barriers”





## Barriers vs deals

Protectionism is not a recent invention



1764: Sugar Act

1765: Stamp Act

1767: Revenue Act

1767: Commissioners of Customs Act

1767: Indemnity Act

1767: New York Restraining Act



1789: The Tariff Act

## Barriers vs deals

Trade barriers can be politically popular...but at a cost

- Often established to protect key domestic industries or workers, so **politically popular**
- **Used to punish other countries** for unfair trade practices (eg IP theft or unsafe products)
- **BUT** trade barriers can **increase the cost of imported goods** (potential cause of inflation)
- Trade barriers can **stifle domestic innovation & efficiency** by limiting competition from overseas
- Once enacted, trade barriers can be **difficult to remove** due to lobbying by protected industries

# Barriers vs deals

## UK trade deals



# Barriers vs deals

## CPTPP

### Members

Australia

Brunei

Canada

Chile

Japan

Malaysia

Mexico

New Zealand

Peru

Singapore

Vietnam

### Awaiting Ratification

United Kingdom



# Barriers vs deals

## CPTPP

### Applied to join

Costa Rica

China

Ecuador

Taiwan

Ukraine

Uruguay

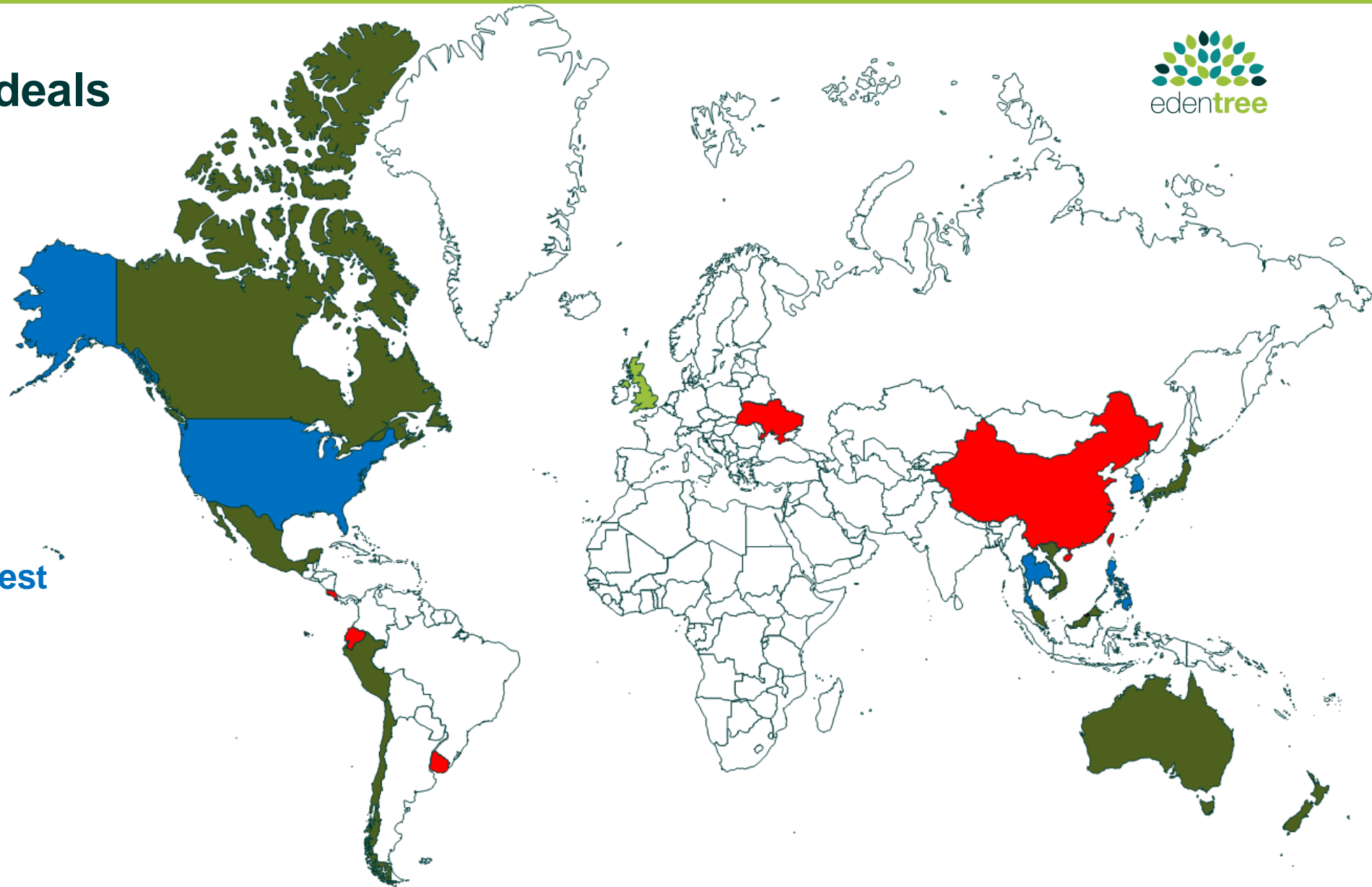
### Expressed interest

Philippines

South Korea

Thailand

USA



# Barriers vs deals

## Largest Free Trade Areas

### USMCA

- Free Trade Agreement
- Dominated by USA
- Incl. IP & Digital rules

**30.2% Global GDP**

**507 million pop.**

**\$65,138  
GDP per capita**

### RCEP

- Free Trade Agreement
- Dominated by China
- No labour/environmental rules

**27.9% Global GDP**

**2,318 million pop.**

**\$13,171  
GDP per capita**

### EU

- Single Market/Customs Union
- Member States of the EU
- Common external tariffs

**17.3% Global GDP**

**448 million pop.**

**\$42,326  
GDP per capita**

### CPTPP

- Free Trade Agreement
- Top 3: Japan (UK) Canada
- Incl. IP, Digital & Fin. Sv. rules

**14.6% Global GDP**

**584 million pop.**

**\$27,386  
GDP per capita**



**Is a trade war more (or less) likely following the US election?**



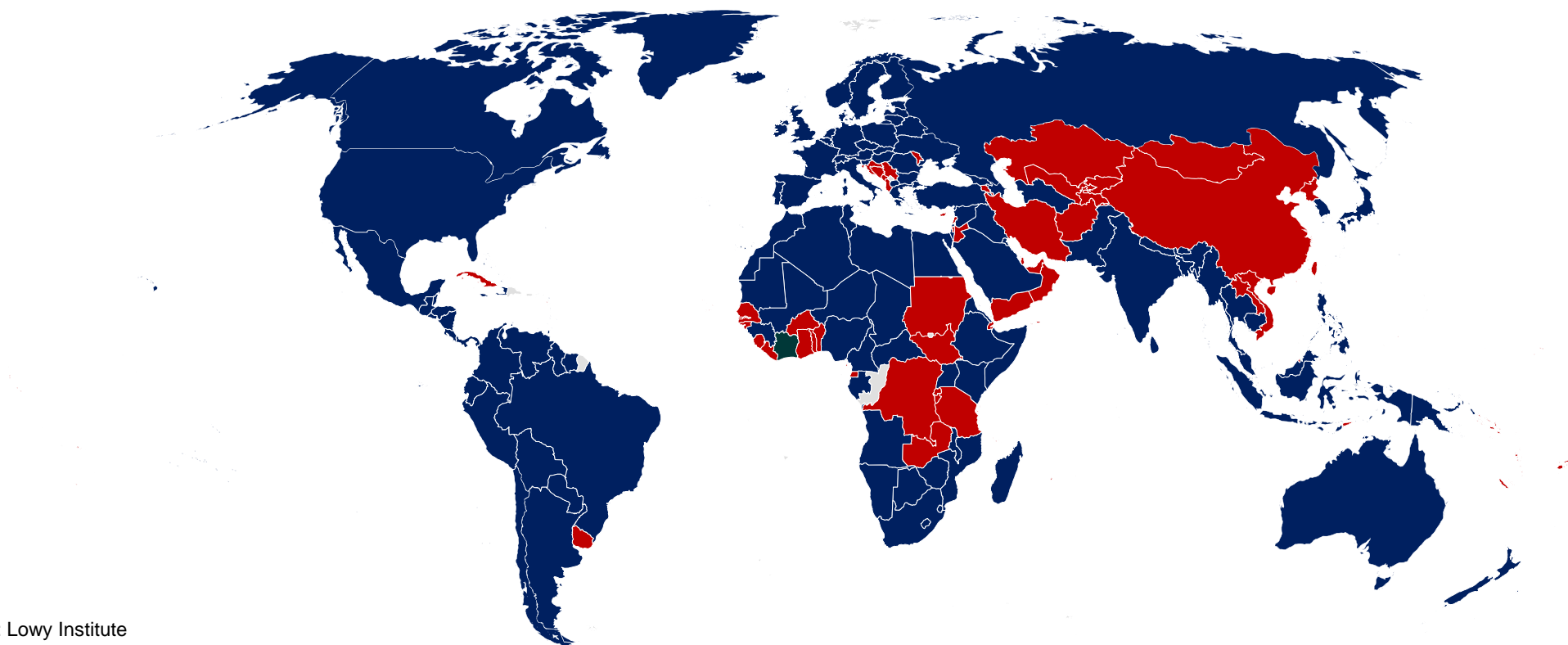




# Is a trade war more (or less) likely after the US election?

China has become the dominant trade partner for most countries

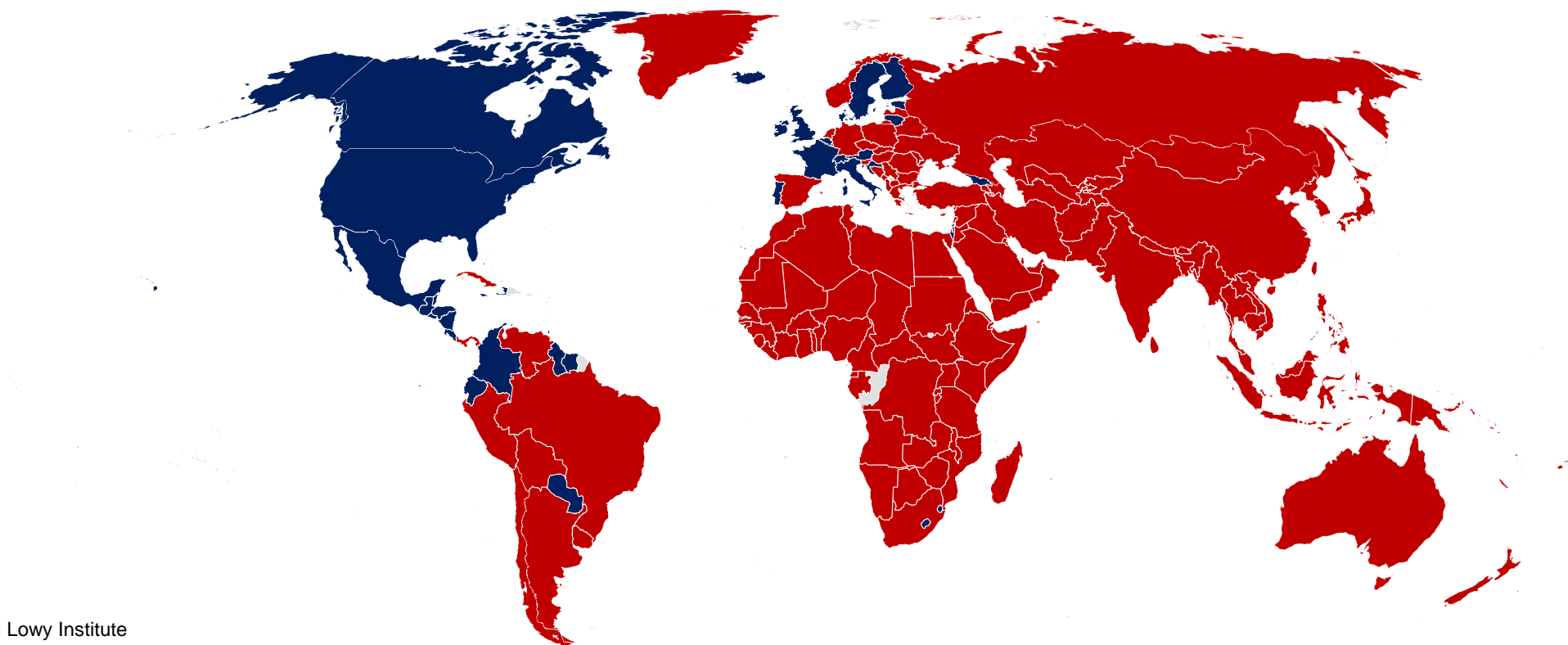
2001



# Is a trade war more (or less) likely after the US election?

China has become the dominant trade partner for most countries

2022



## Is a trade war more (or less) likely after the US election?

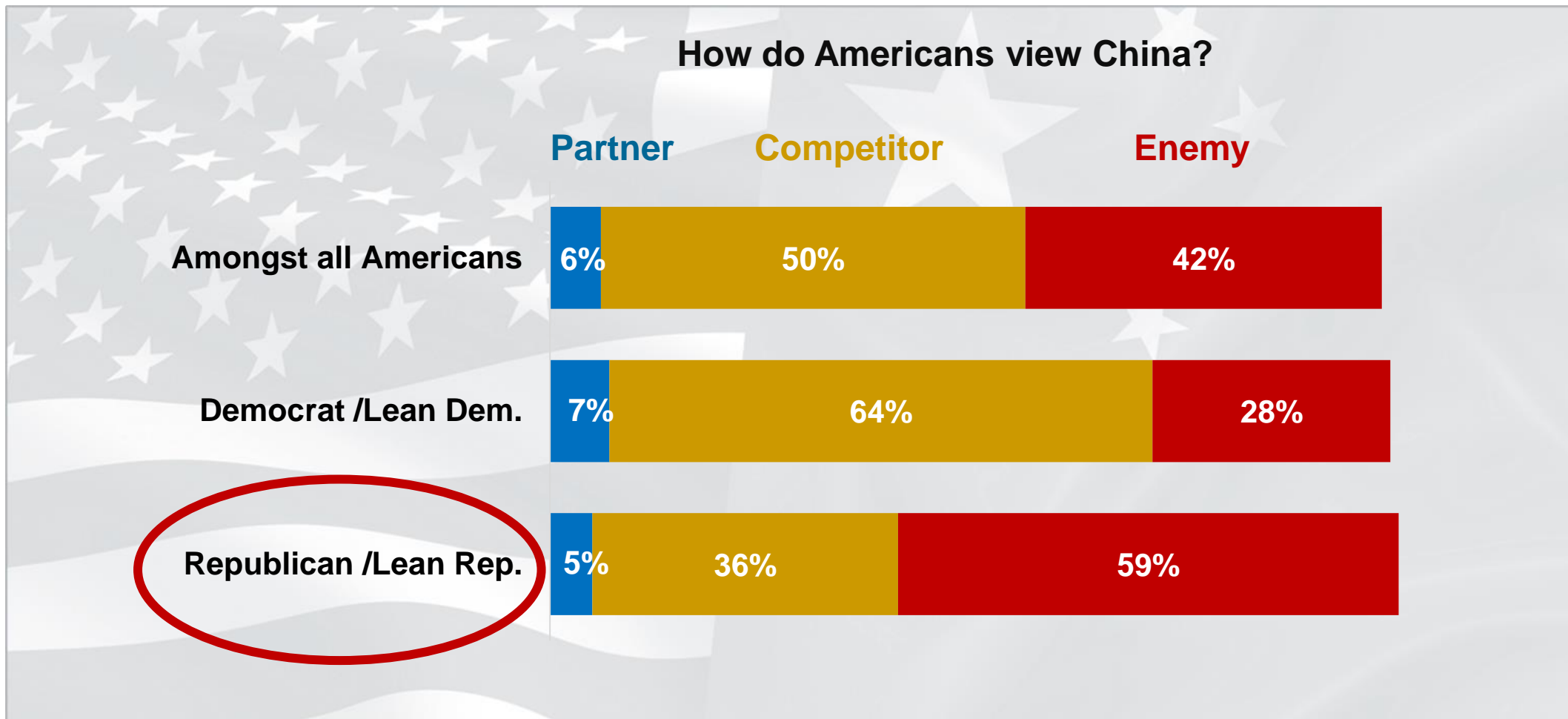
US-China relations are already poor...



Source: Pew Research Center - 3,600 US adults from April 1-7, 2024

# Is a trade war more (or less) likely after the US election?

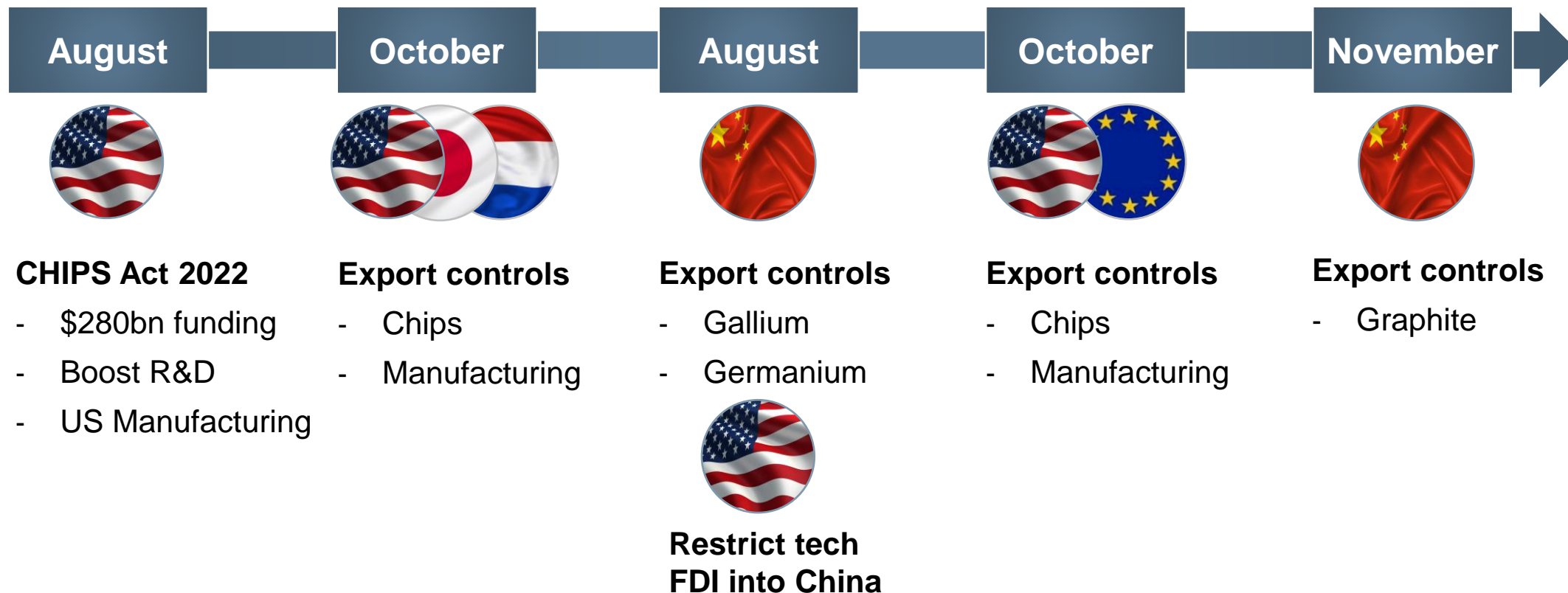
...but a Trump Presidency could see relations deteriorate even further...



# Is a trade war more (or less) likely after the US election? ... and a US-China “chips war” has already effectively started

**2022**

**2023**



# Is a trade war more (or less) likely after the US election?

What could a second Trump Presidency mean for international trade?



*"I will implement a bold series of reforms to completely eliminate dependence on China in all critical areas"*

**President Donald Trump: Feb 2024**



- Semiconductors
- Electronics
- Steel
- Pharmaceuticals

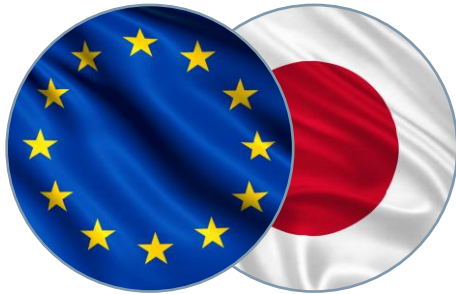
} Aim to reduce imports  
from China to zero

# Geopolitics: Supply chain disruptions

What could a second Trump Presidency mean for international trade?



- Section 301 – Trade Act 1974: “unfair trade practices”
- Section 232 – Trade Expansion Act: national security grounds
- Revoke China’s “Most-favoured Nation” status: tariffs rise >60%
- “Reciprocal Trade Act”: Pressure the EU & Japan to lower tariffs for US firms
- “Universal baseline” tariffs: Potentially 10% tariffs on most foreign products
- The UK could become a target of the “Reciprocal Trade Act”...or
- Trump may even offer the UK a trade deal





Would you like to know more about trade?  
Please request our FAQ



“FAQ”

The image shows the cover of a document titled "International Trade" with the EdenTree logo in the top left. Below the title is a photograph of a large cargo ship in a harbor. The document title "Frequently Asked Questions: International Trade" is centered below the image. Two speakers are introduced: Sam Lowe, Partner at Flint Global, and Carlota Esguevillas, Head of Responsible Investment at EdenTree. Two questions are listed: "What is the future of trade deals?" and "What are the challenges from a sustainable perspective when considering international trade?".

**International Trade**

edenTree

**Frequently Asked Questions: International Trade**

**Sam Lowe**  
Partner, Flint Global

**Carlota Esguevillas**  
Head of Responsible Investment, EdenTree

**Q. "What is the future of trade deals?"**  
**Sam:** "I think while we've seen the UK enter into quite a few trade agreements in recent years, for example, its agreement with Australia, with New Zealand, and its accession to the Comprehensive Progressive Agreement for Trans-Pacific Partnership...the CPTPP...in the coming years I expect to see a lot less of that. It is possible that the current Government concludes negotiations with India, and with the Gulf Co-operation Council, although it is unlikely because those negotiations are proving quite difficult...but following a General Election in the UK I don't expect negotiating new free trade agreements to be a priority for a Labour Government, who will be much more concerned about classic labour industrial policy type issues."

**Q. "What are the challenges from a sustainable perspective when considering international trade?"**  
**Carlota:** "International trade plays a really important role in stimulating economic growth and improving social welfare however it can also lead to environmental difficulties and challenges such as increased CO2 emissions, deforestation... and it can also serve to exacerbate social inequalities."

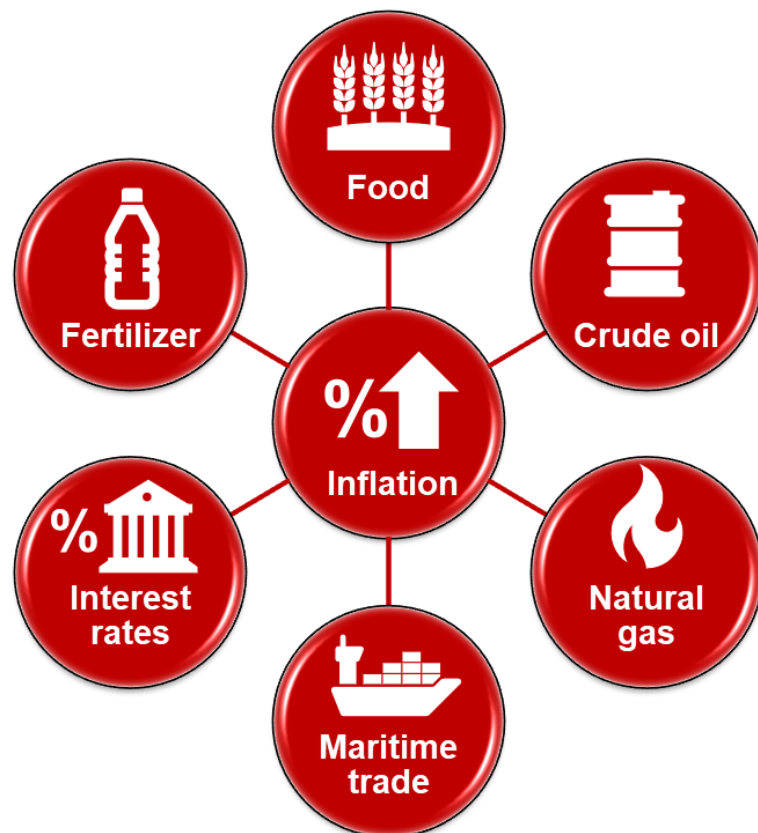
## The global outlook for inflation and growth



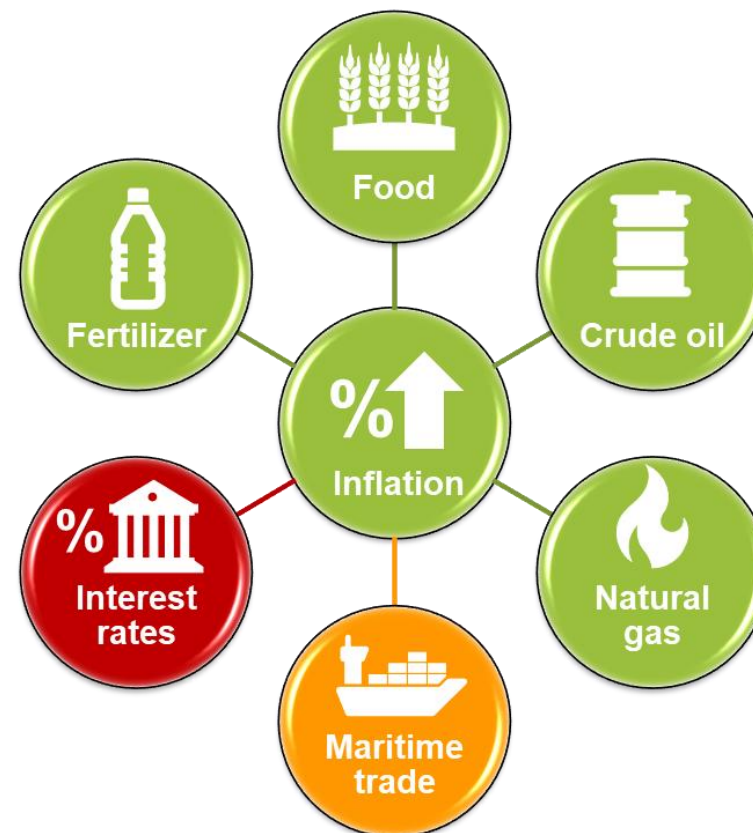
# The outlook for inflation

Cost pressures have largely eased over the past 12 months...

## The “cost of living crisis”



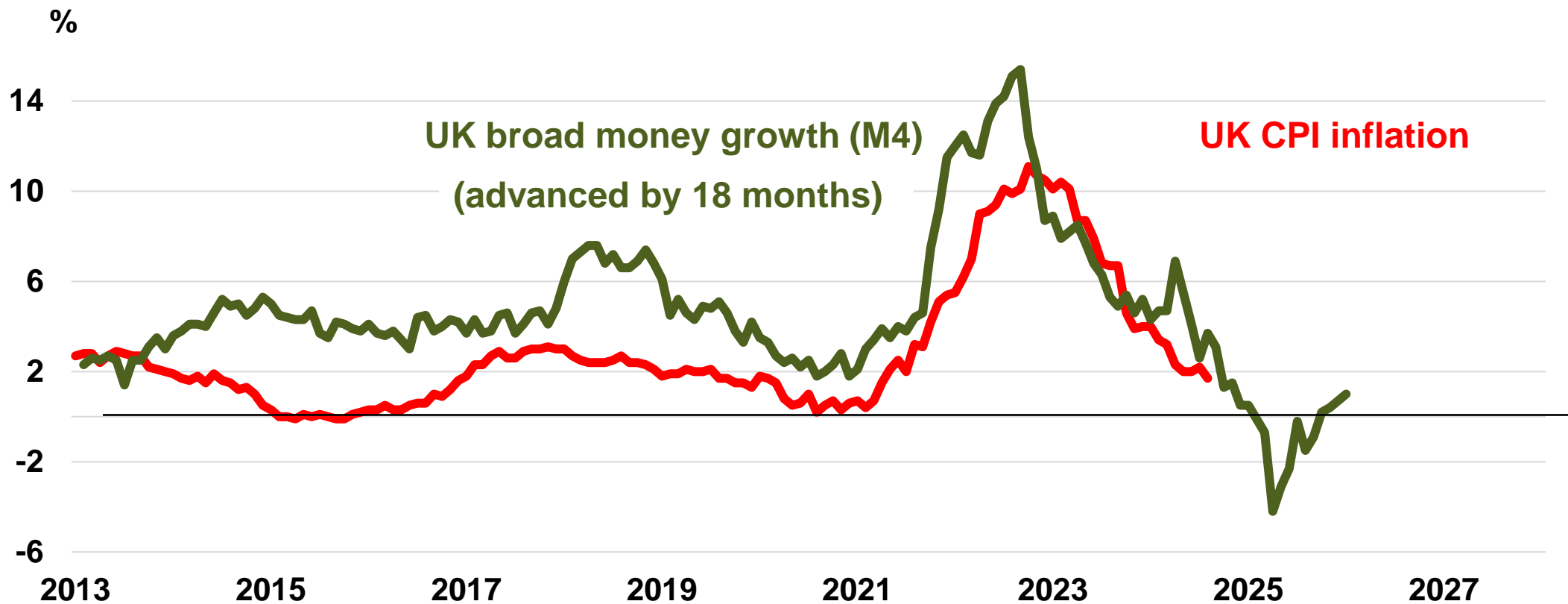
## Current inflationary pressures



# The outlook for inflation

...while money supply growth is broadly flat...

## UK broad money supply & CPI inflation

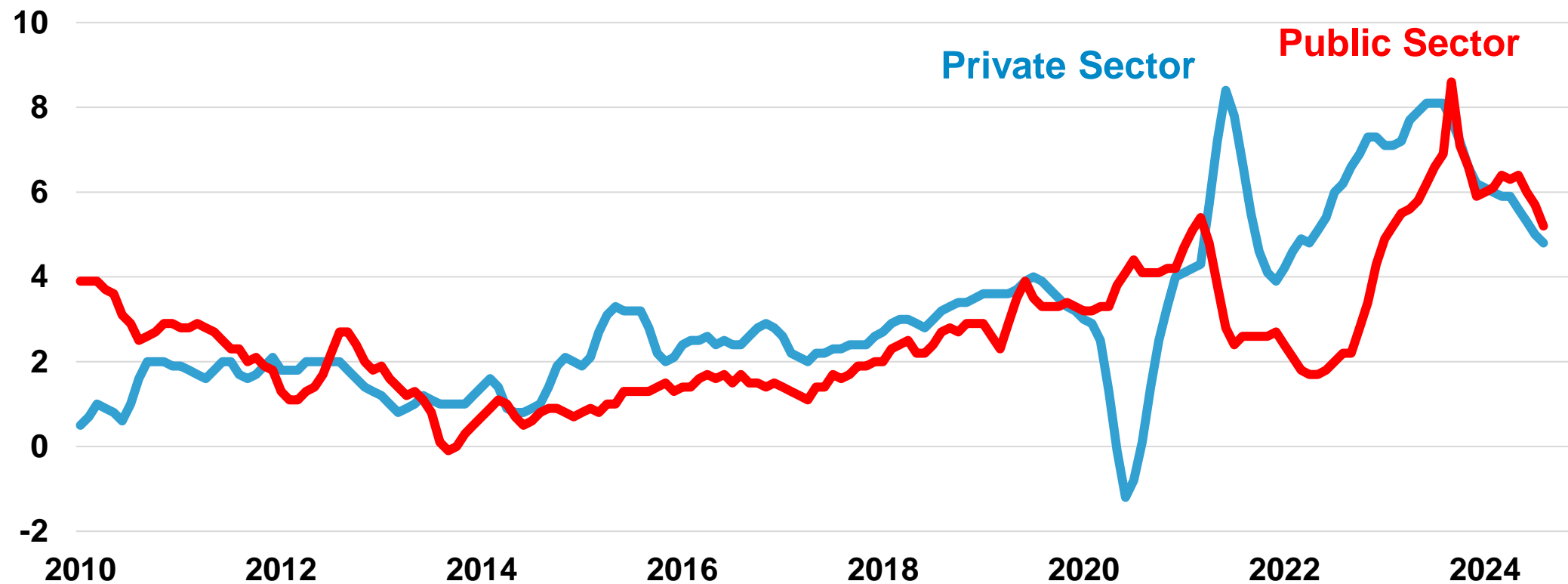


Source: ONS CPI Inflation data to End September 2024. Bank of England M4ex Money Supply (advanced 18 months)

# The outlook for inflation

...and wage pressures are receding

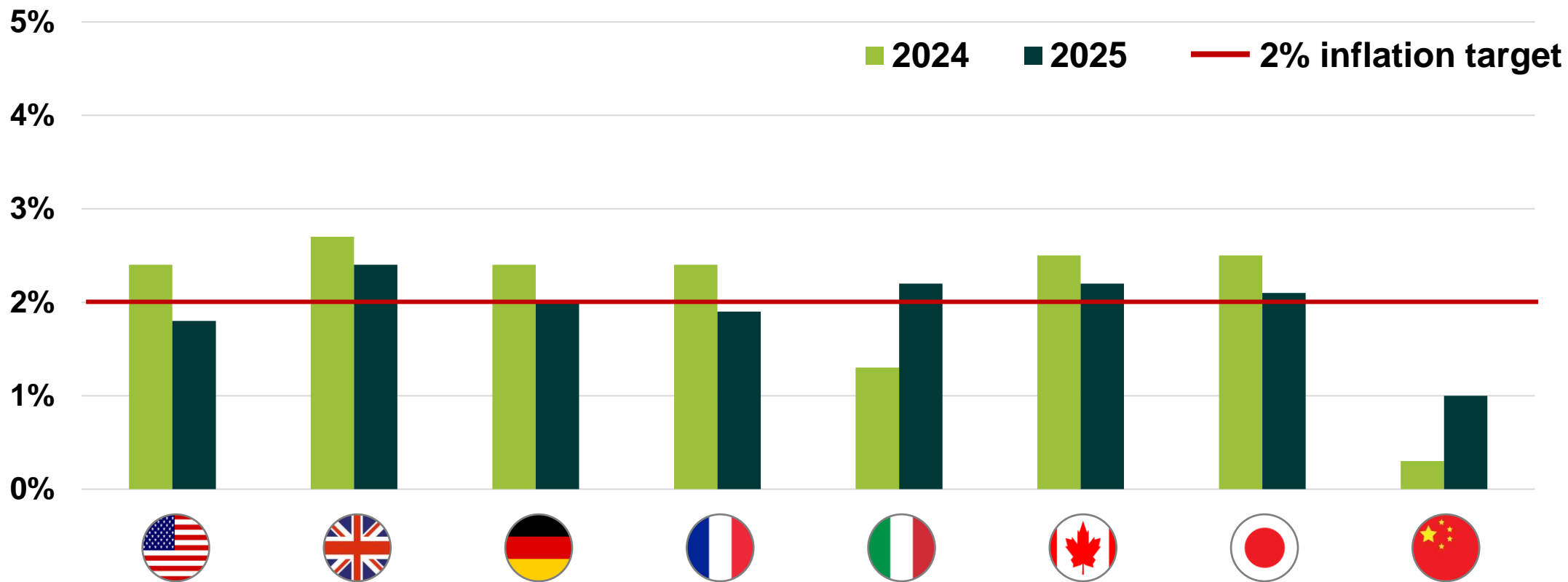
### UK public & private sector pay growth (%)



# The outlook for inflation

Inflation is forecast to remain subdued both in the UK & globally

### OECD Harmonised Inflation Forecasts (year-on-year %)

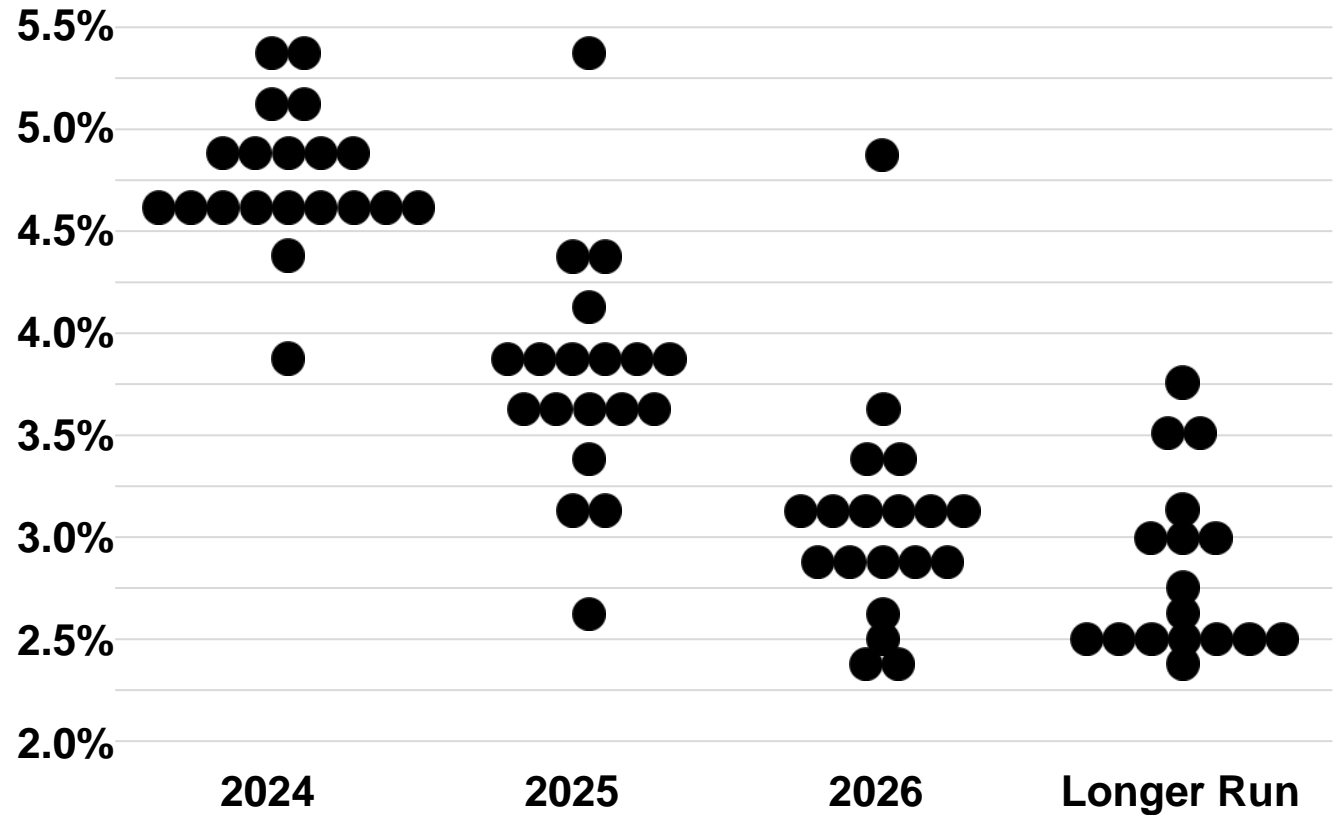


# The outlook for growth

At the start of 2024 rates were expected to remain “higher for longer” ...



Fed “Dot Plot” – March 2024

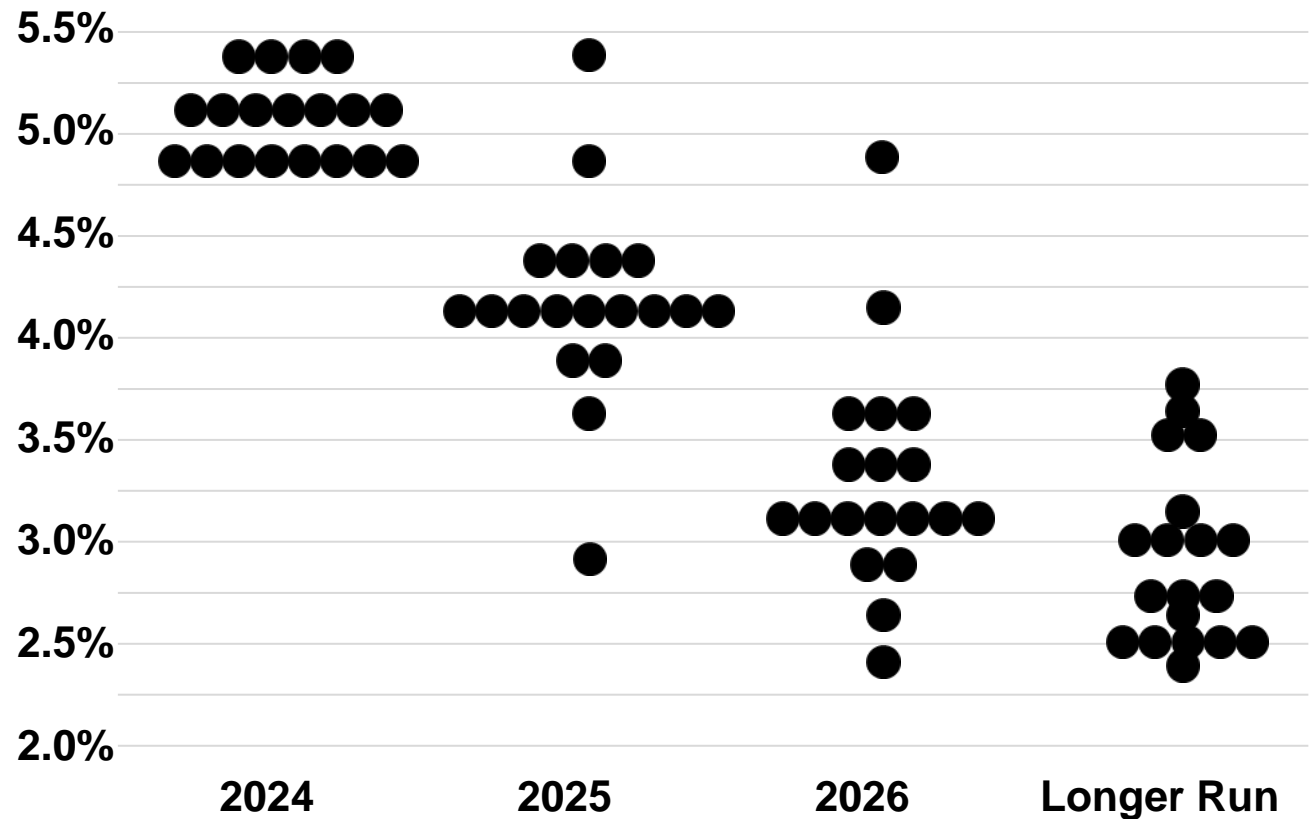


# The outlook for growth

At the start of 2024 rates were expected to remain “higher for longer” ...



Fed “Dot Plot” – June 2024

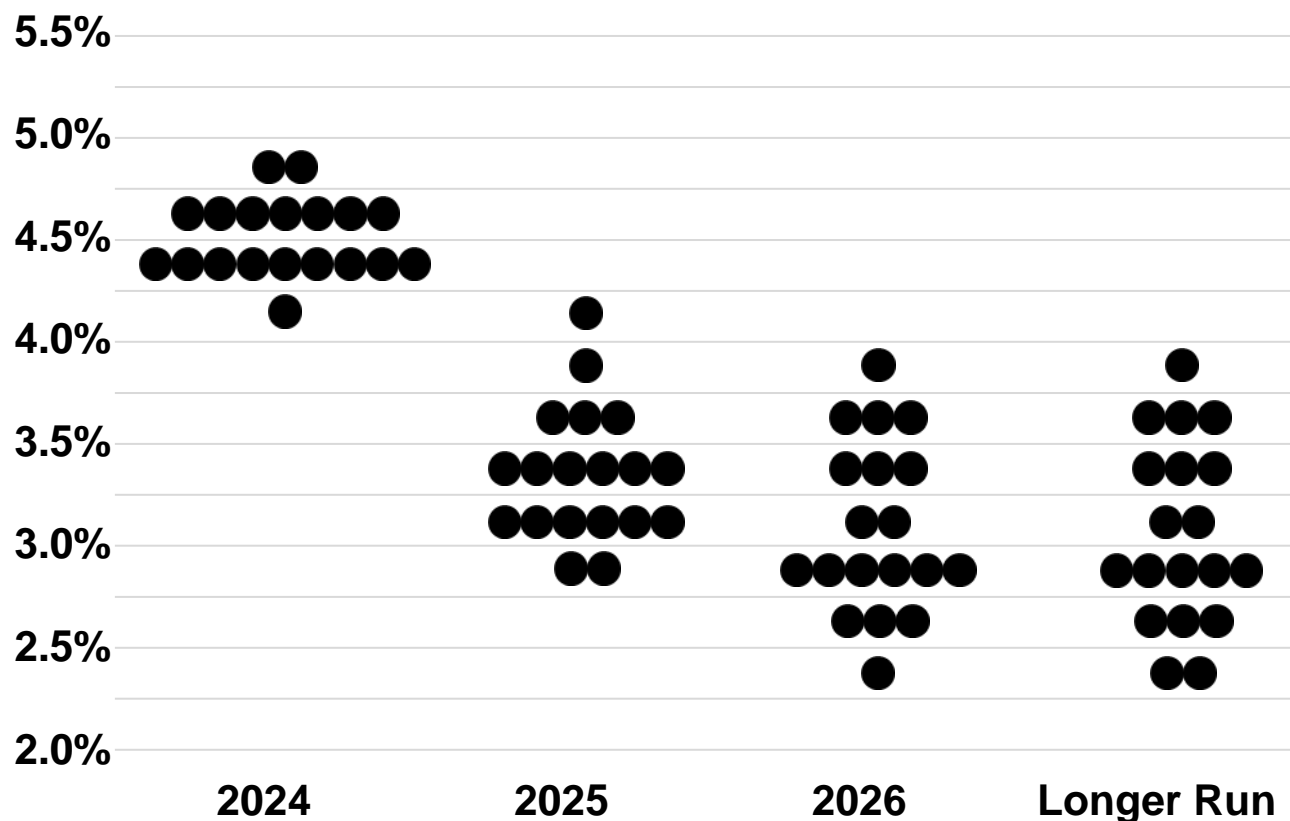




# The outlook for growth

...but the Fed has recently suggested that rates may begin to fall faster...

Fed "Dot Plot" – September 2024

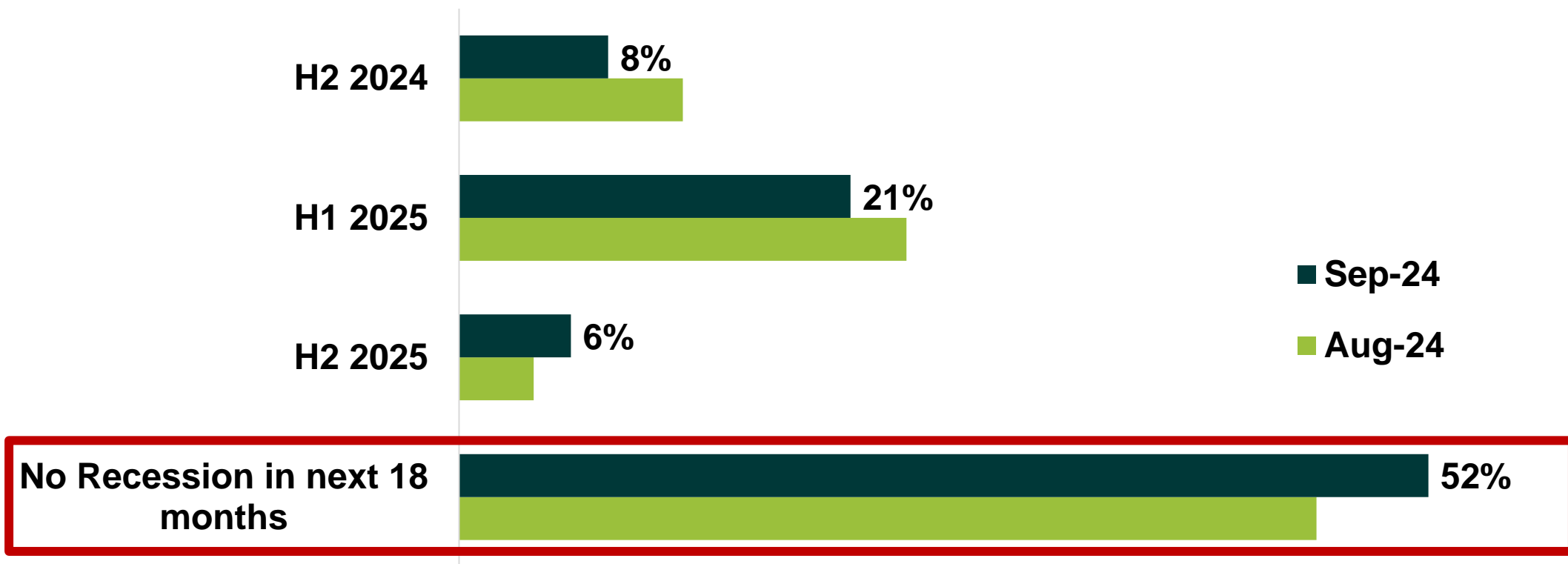




# The outlook for growth

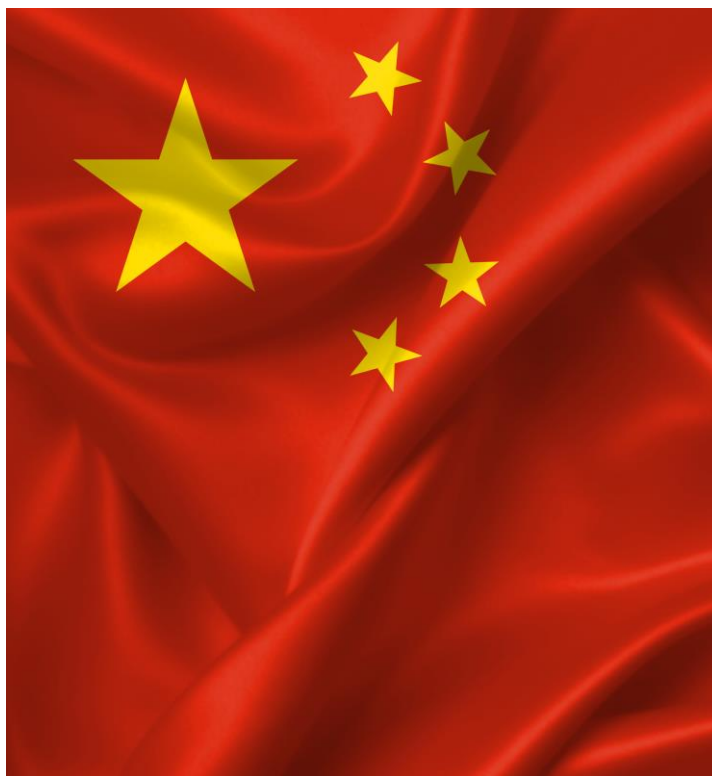
...while half of institutional investors say no US recession in next 18 months

Q. “When do you expect the US economy to fall into recession?”



# The outlook for growth

## China stimulus

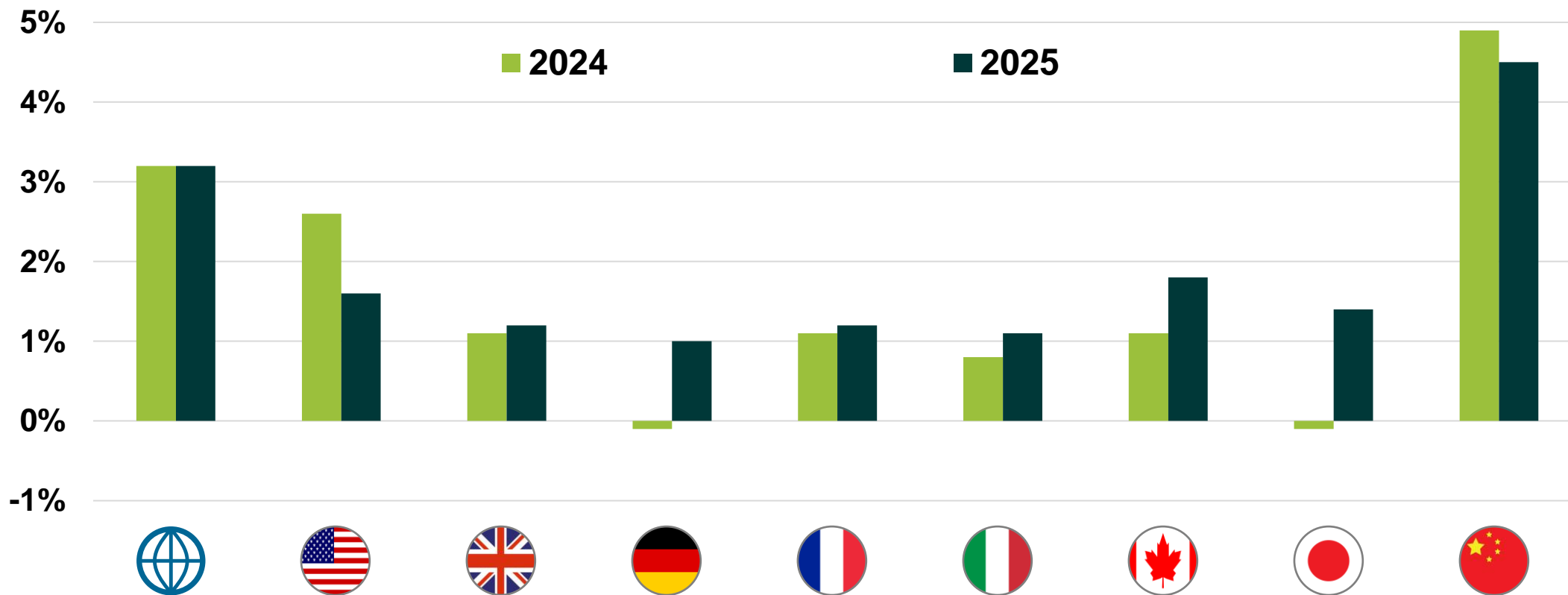


- 24<sup>th</sup> September: People's Bank of China announced stimulus
- PBOC cut mortgage rates by 50bps
- Reserve Requirement Rate cut by 50bps
- Relaxed rules for homebuyers in major cities
- PBOC will allow refinancing of mortgages (\$5.3 trillion market)

# The outlook for growth

Growth is expected to remain modest in many advanced economies

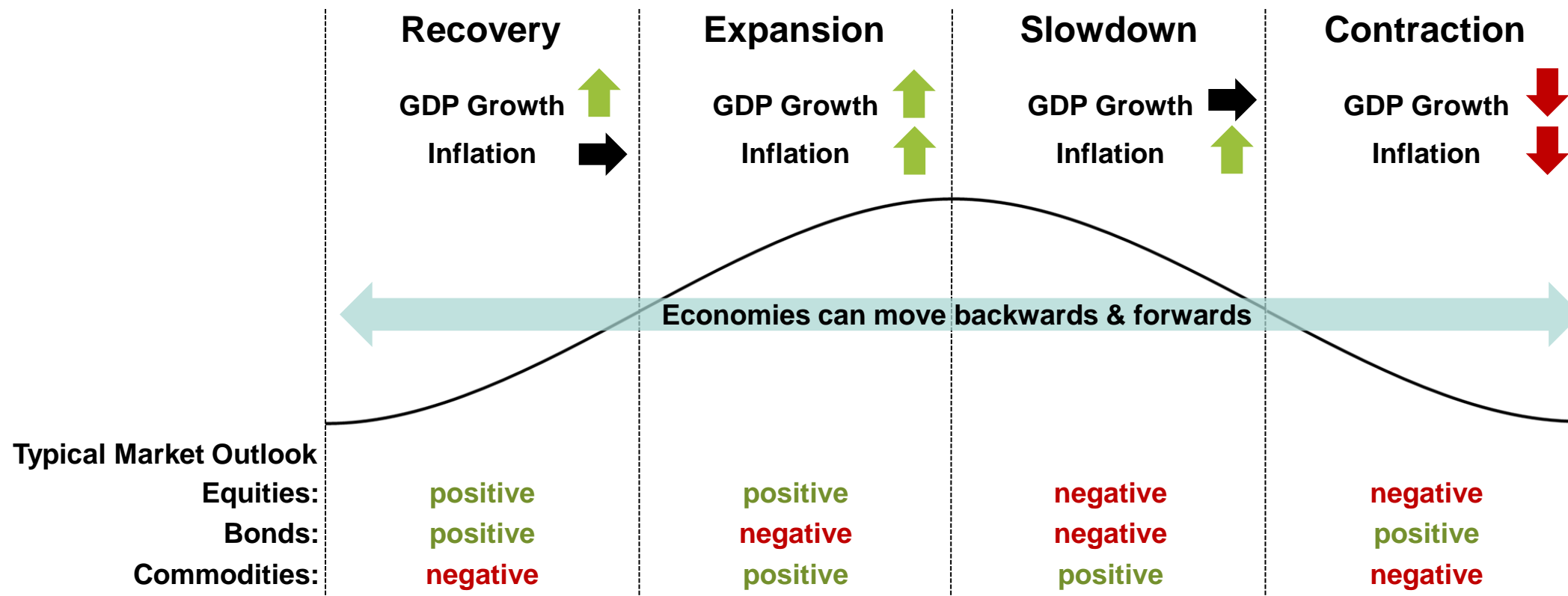
OECD annual GDP projections for 2022 to 2024 (year-on-year %)



Source: OECD Economic Outlook September 2024

# The economic cycle

## Diversification is key



## Summary

How important is global trade & what are the threats that exist to it?



- Free trade between countries can be a “win – win”
- Global trade relies upon strategically important routes/chokepoints
- Geopolitics – conflicts/pandemics/climate change - can all impact trade

## Summary

Is a trade war more (or less) likely following the US election?



- US-China relations were already poor before the Presidential election
- A “chips wars” has been ongoing since August 2022
- A broadening out of tariffs / non-tariff barriers looks likely



# Summary

## The global outlook for inflation & economic growth



- Inflationary pressures appear to be receding in the UK & globally
- Modest growth is forecast for many developed economies
- **BUT** there are now many risks that could stoke inflation
  - A US-China trade war
  - An energy spike caused by escalation of the Israel-Iran conflict
  - The effects of the Chinese Stimulus

# Learning Outcomes

Following this presentation you should now be able to:



Understand the importance of global trade & the potential threats that exist to this trade



Consider whether a trade war is more (or less) likely following the US election



Discuss the global outlook for inflation & economic growth

# Why should you consider EdenTree?

Credibility is key



## Why EdenTree? Credibility is key



**EdenTree Green Future Fund**



**EdenTree Green Infrastructure Fund**



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EdenTree Investment Management, 24 Monument Place, London, EC3R 8AJ

Tel: 0800 011 3821

Email: [clientservice@edentreeim.com](mailto:clientservice@edentreeim.com)

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