



Society of Actuaries in Ireland

**Finance & Investment Forum:
Preparing for a world with more
borders**

4th March 2019

Disclaimer

The views expressed in this presentation are those of the presenter(s) and not necessarily those of the Society of Actuaries in Ireland or their employers.



Society of Actuaries in Ireland

Introduction

Padraig Flanagan

Agenda

- Committee / Working Group updates
 - Financial & Economic Assumptions paper Robert Wolfe
 - ESG Working Group Rob Meaney
- History of trade wars Colm Fitzgerald (UCD)
Xizuan Peng (UCD)
- Irish business and a world with more borders Danny McCoy (Ibec)



Finance & Investment Committee update

Finance & Investment Committee members

Daragh Burns
Colm Fitzgerald
Padraig Flanagan
Nick Hatherley
Steve Kilkenny
Darragh Kirwan
Brian Murray
Maebh O'Connor
Frank O'Regan
Stuart Redmond
Robert Wolfe

Contributing to consultations & working groups including Automatic Enrolment, ESG and Aviation Finance

Financial & Economic Assumptions Paper 2019

Continuation of CFA Society CPD collaboration

CPD events including:

Blockchain
China
Consumer projections
DC master trusts
Finance & Investment Forum
Investment Governance
UK bulk annuity market



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Financial & Economic Assumptions Paper

Robert Wolfe

SAI Financial & Economic Assumptions Paper

- Background
- 2018 Update
- Preview of 2019 Update
 - Not yet approved

Background

- Annual paper, part of FIC mandate
- Approval by SAI Council
- Purpose is to assist Practice Committees and Council in reviewing ASPs
- Also available for use as reference material by individual members
- Gives recommendations on financial and economic assumptions
 - Mostly formulaic rather than numeric
 - But many assumptions in ASPs are numeric

ASPs with Financial Assumptions

ASP	Latest Version Effective From
LA-8	01/10/2017
PRSA-2 (&5)	01/10/2017
PEN-12	01/10/2017
PEN-3	01/01/2013
PEN-4	01/03/2015

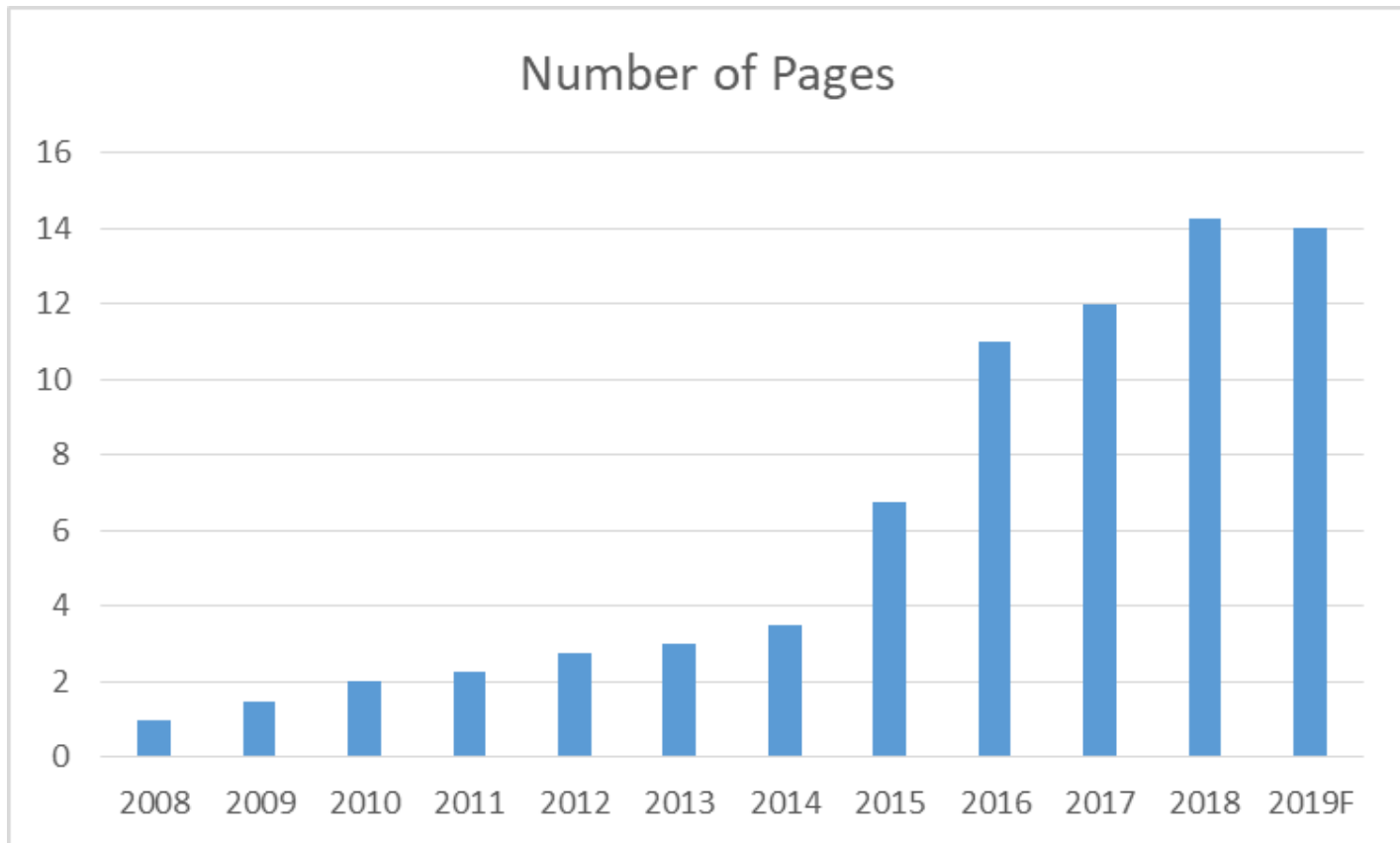
- Last amendment to ASPs LA-8 / PRSA-2 / PEN-12 was to prescribe maximum returns rather than specific rates.
- Assumptions for pension transfer values (ASP PA-2) are now contained in Statutory Guidance.

Assumptions Covered

- Least Risk Interest Rates
- Price and Earnings Inflation
- Returns on Asset Classes:
 - Cash
 - Bonds
 - Equities
 - Commercial Property
 - Other Assets
- Derivatives, Borrowings and Geared Funds
- Diversification and Multi-Asset Funds



SAI Financial & Economic Assumptions Paper



2018 Version

- Purpose of paper clarified
 - Assist Practice Committees in reviewing ASPs
- Best / Central Estimates (long term)
 - Not allowing for current market conditions
 - Practice Committees must decide on prudence
- Emphasis on Timescales
- New sections on:
 - Commercial Property
 - Derivatives, Borrowings and Geared Funds
 - Multi-Asset Funds

2018 Version

- Equity Risk Premium Recommendation
 - Previously 2.0-5.5%
 - Changed to 3.0-5.0%
 - But 2.0-4.0% for policyholder / scheme member illustrations
- Concern that projections may be over-optimistic
- New Appendix of sources of ERP data

2019 Work in Progress

- Discussions with Practice Committees
 - Continue with annual updates
 - Practical aspects of ASP changes
- Review by FIC close to completion
- Draft to go to Council
- Note on process (ASP PA-2)

- SAI Event 24/01/2019: “Are consumers being told the truth – PRIIPs, ESMA and other impediments”

2019 Work in Progress

- No major changes to recommendations
- Some more specific recommendations
- Consistent approach across asset classes
 - Least Risk Interest Rates plus Risk Premium
- More emphasis on short-term v long-term assumptions
- Focus on ease of use
- Editing of text
- New Appendix of sources of information

2019 Work in Progress

- Bond / swap basis for interest rates
- Fixed-Interest and Cash sections rewritten
- Changes to Inflation section
 - Reference to Purchasing Power Parity
 - Compare to Eurozone rather than French inflation
- Earnings inflation assumption

2019 Work in Progress

- Recommend use of Equity Risk Premium
- Other Assets section simplified
- Diversification Benefit
- More focus on
 - Valuation of Liabilities
 - Non-Euro assets

2019 Work in Progress

- Final draft will be shared with Pensions and Life Committees shortly
- Then submitted to Council for approval
- Any comments or questions by 8th March to me at rwwolfe@hotmail.com

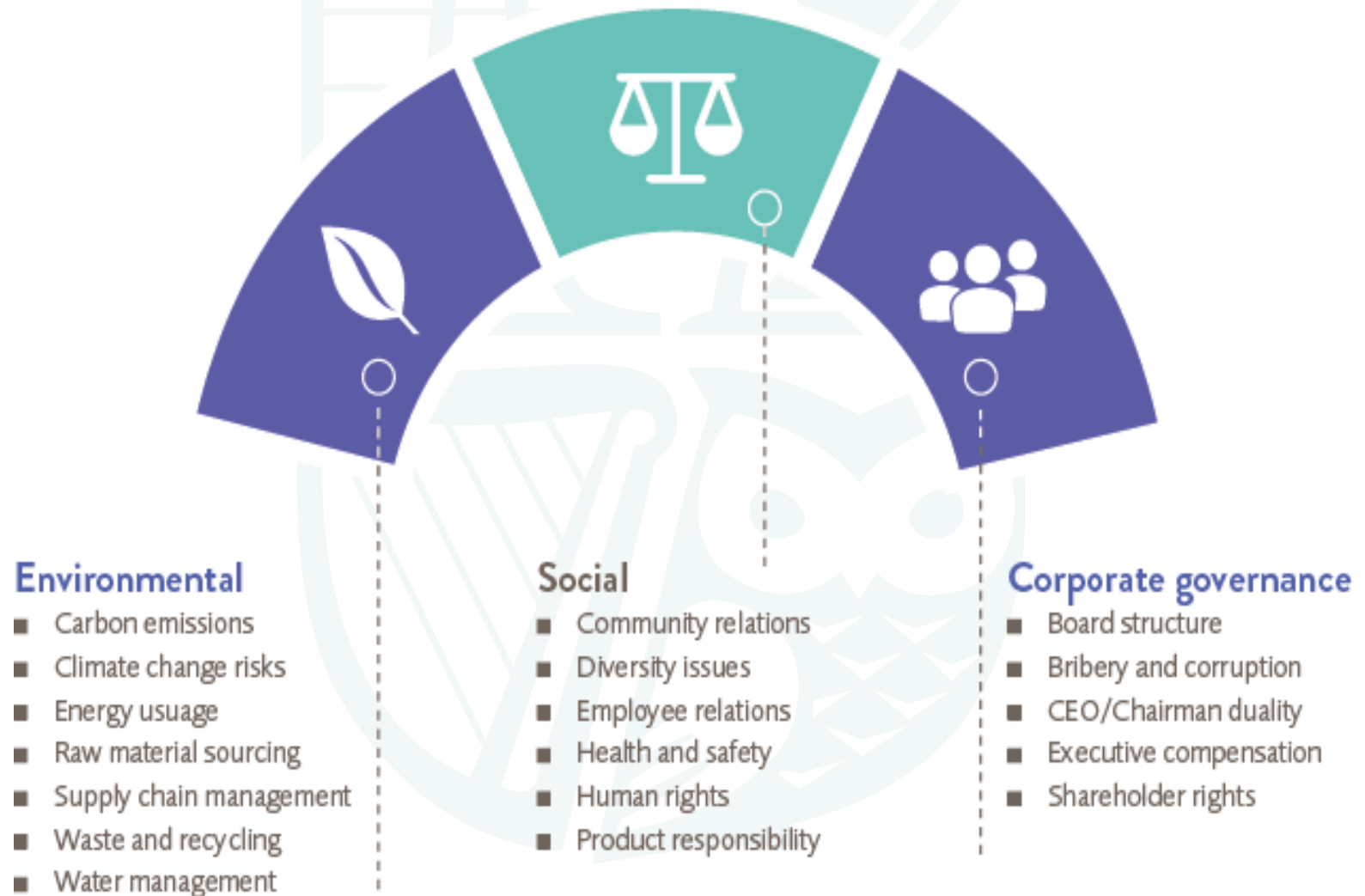


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Update from ESG Working Party

Rob Meaney

What does ESG stand for?



Background

- ESG WP established in summer 2018
 - to consider the requirements of the IORP II Directive
 - to support the education and awareness of members on ESG issues
- Membership – volunteers welcomed!

Sandra Rockett (Chair)	Robert Meaney
Darragh Kirwan	Ciaran O'Sullivan
Martin Kyne	Finian Raftery
Martin McAlister	Shauna Rowley
Marie-Claire McKenna	Darren Tuohy

Activity to date

- Arranged CPD event on 5th November 2018
 - In conjunction with Climate Week
 - Guest speaker Eimear Toomey, Sustainalytics
 - Fearless Girl!
- Article (and photos) in [December Newsletter](#)
- Meeting with Pensions Authority
 - Offered to assist the Authority to develop Guidelines for Trustees in relation to ESG
- EIOPA Stress Tests
 - Input to AAE response to informal consultation on ESG Questionnaire

Work in progress/upcoming

- Planning a second event aimed at Trustees
 - After IORP II transposed (April/May?)
 - In conjunction with IAPF and APLI
- Engagement with Pensions Authority
- Comment (via IAA) on IOPS “Supervisory guidelines on the integration of ESG factors in the investment and risk management of pension funds”
- Presentation at Annual Convention on 24th May 2019



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History of Trade Wars

Colm Fitzgerald & Xizuan Peng

Introductions

- Zixuan Peng
 - MSc Actuarial Science Graduate from UCD
 - Today's presentation based on her UCD MSc research thesis which investigated the current US/China trade war.
- Colm Fitzgerald FSAI
 - Supervisor for Zixuan's MSc thesis.

Overview of presentation

- Brief history of trade wars
- Trade theory
- Overview of US-China trade war
- Data
- Analysis of current trade war
- Conclusions

Brief history of trade wars

- Chinese boycotts

- THAAD conflict with South Korea in 2017

- Deployment of the Terminal High-Altitude Area Defense (THAAD) in response to the continuous nuclear and missile tests in North Korea.
 - Chinese boycotts of South Korean goods, in particular those of Lotte Group who publically supported deployment. 75 of 99 Lotte stores in China shut down by local authorities. Chinese tourism to South Korea falls 39.4% yoy. Hyundai motors had to stop the operation of their factories in China and had significant economic losses.

- Chinese anti-Japanese demonstrations 2012

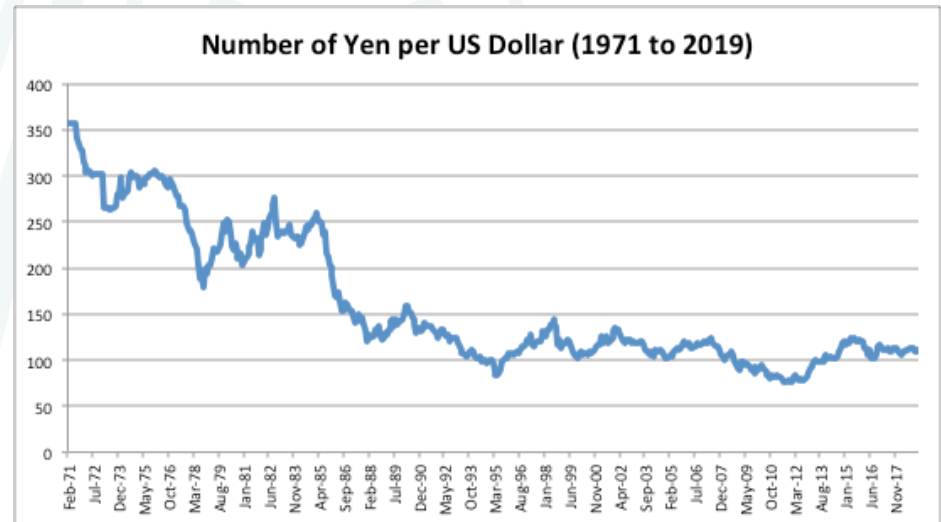
- Territorial issues arose around anniversary of Japanese invasion of China in WWII.
 - Boycott of Japanese good. Halt of rare earth exports to Japan. Book sellers asked not to translate or sell Japanese books. Violent protests.
 - Companies like Honda, Mazda, Sony and Kobe Steel etc. temporarily closed or suspended part or all of their production. AEON shopping malls vandalized.

- Scarborough Shoal standoff from 2012

- Tension around the disputed Scarborough shoal. Lead to calls for boycotts, actual boycotts and new trade barriers with the Philippines.

Brief history of trade wars

- US – Japan Trade War (1980s/1990s)
 - US hegemony threatened by Japanese growth - trade war starts.
 - As a result of US Dollar depreciations and expansionary policies provoked by US, Japanese economy gets over-inflated causing a bubble.
 - Subsequent Japanese protectionism is met by more US using dollar depreciations and other tactics to counter, leads to Asian crisis in 1990s and lost decades in Japan. US used its monopsony power to win the war.
 - Arguably this is the most recent and comparable example to current US-Chinese trade tensions.



Brief history of trade wars

- **Smoot-Hawley Tariff Act (1930)**
 - A trade act implementing protectionist trade policies sponsored by Senator Reed Smoot and Representative Vills C. Hawley and was signed into law on June 17, 1930, increased tariffs on over 2000 imported goods to the US.
 - The act and the retaliation tariffs from other countries were the major factor in the reduction of the U.S.'s imports and exports by more than a half during the Great Depression.
 - Consensus viewpoint is that it greatly exasperbated the Great Depression.
 - In 1932, Smoot and Hawley lost elections as the Depression got worse - without the prosperity they promised by the high tariffs.
 - Unemployment which was 8% in 1930 when the tariff law was passed, increased to 16% in 1931, and 25% in 1932-33.

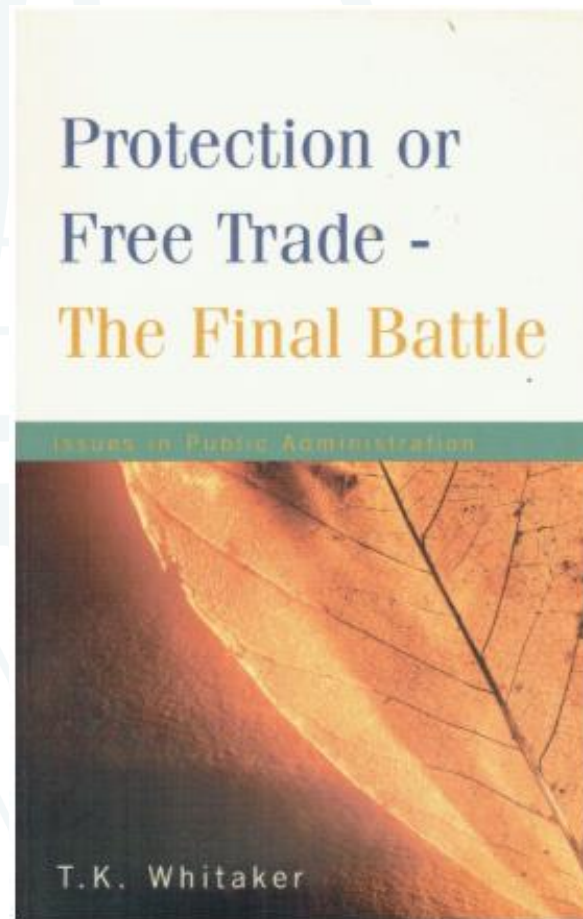
Brief history of trade wars

Many other examples, including:

- Anglo-Irish Trade War (1932-1938)
 - A protectionist and retaliatory trade war between the Ireland and the UK
 - Thankfully for us, T.K Whitaker came along!
- German-Polish Customs War (1925)
- Other US tariff acts
 - Fordney-McCumber Tariff (1922)
 - Emergency Tariff of 1921
 - Payne-Aldrich Tariff Act (1909)
 - Dingley Act (1897)
 - McKinley Tariff (1890)
- France-Italy Trade Confrontation (1886)
- Canada-U.S. Confrontation (1866)
- Anglo-Hanseatic War (1469-1474)

In summary, all were economically destructive!

Brief history of trade wars



When we move in the right direction - we are better off for it!

Trade theory

- Economic theories
- Political economic theories
- Behavioural theories

Trade theory – Economic theory

- **Law of comparative advantage**

- Trade can benefit all countries if they specialize in the goods in which they have a comparative advantage.
- Comparative advantage – a country has a comparative advantage over another in the production of a good if it can produce it at a lower opportunity cost: i.e. if it has to forgo less of other goods in order to produce it.
- Absolute advantage – a country has an absolute advantage over another in production of a good if it can produce it with less resources than the other country.

- **In more normal language:**

- We are all better off, if each of us do what we do best, and we trade with each other.
- In other words, civilisation is better than barbarism.

- **Benefits from trade**

- Cost reductions and greater competition.

Trade theory – Economic theory

- Law of comparative advantage – Richardo's example

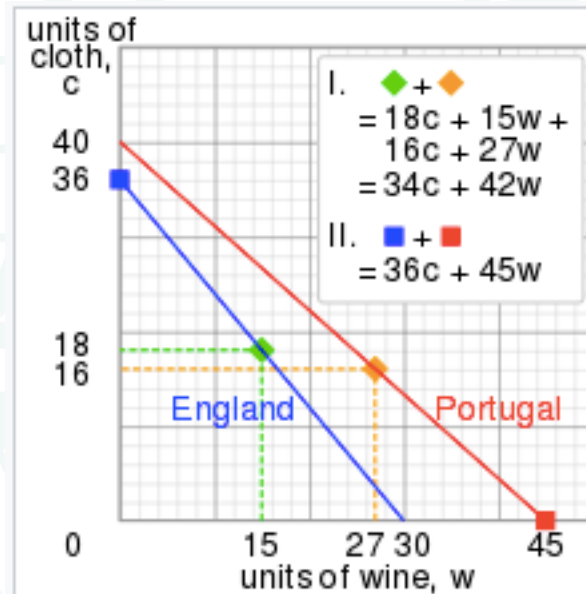
“Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole.... It is this principle which determines that wine shall be made in France and Portugal, that corn be grown in America and Poland, and that hardware and other goods shall be manufactured in England. If Portugal had no commercial connexion with other countries, instead of employing a great part of her capital and industry in the production of wines, with which she purchases for her own use the cloth and hardware of other countries, she would be obliged to devote a part of that capital to the manufacture of those commodities, which she would thus obtain probably inferior in quality as well as in quantity.

England may be so circumstanced, that to purchase the cloth may require the labour of 100 men for one year, and if she attempted to make the wine, it might take the labour of 120 men for the same time. England would therefore find it in her interest to import wine, and to purchase it by the export of cloth. To produce the wine in Portugal, might require only the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth. This exchange might even take place, notwithstanding that the commodity imported by Portugal could be produced with less labour than in England. Though she could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of 100 men to produce it, because it would be advantageous for her to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could by diverting a portion of her capital from the cultivation of wines to the manufacture of cloth. Thus England would give up the produce of labour of 100 men, for the produce of 90.”

– Excerpt from “*On the Principles of Political Economy and Taxation*” (1817) by David Richardo

Trade theory – Economic theory

- Law of comparative advantage – Richardo's example



Graph illustrating Ricardo's example:

In case I (diamonds), each country spends 3600 hours to produce a mixture of cloth and wine.

In case II (squares), each country specializes in its comparative advantage, resulting in greater total output.

Trade theory – Economic theory

- The dead-weight loss from tariffs...

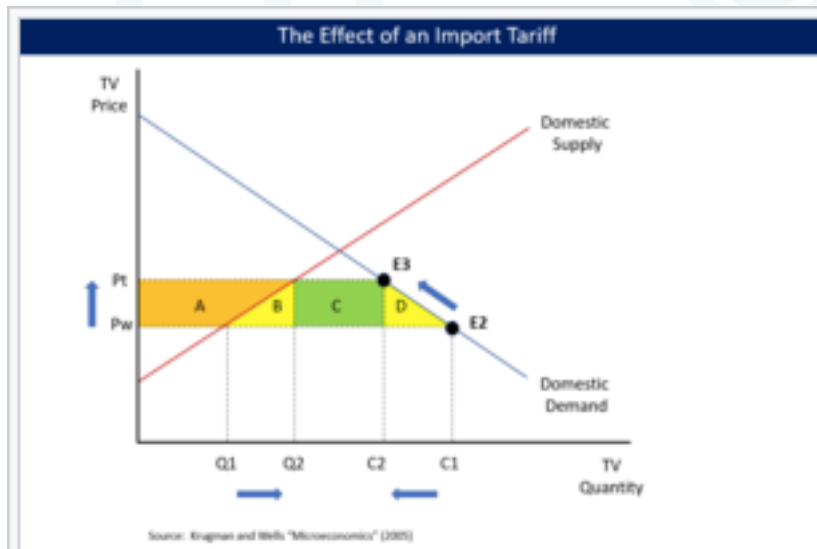


Diagram showing effects of an import tariff, which hurts domestic consumers more than domestic producers are helped. Higher prices and lower quantities reduce **consumer surplus** (the area above price but under the demand curve) by areas A+B+C+D, while expanding **producer surplus** (the area below price but above the supply curve) by A and government revenue by C (the import quantity times the tariff price.) Areas B and D are **dead-weight losses**, surplus lost by consumers and overall.^[54]

Trade theory – Economic theory

- **Methods of restricting trade**
 - Tariffs (customs duties), quotas, exchange controls, import licensing, embargoes, export taxes, subsidies & administrative barriers.
- **Arguments against trade**
 - The infant industry argument (potential comparative advantage exists)
 - To prevent ‘dumping’ and other unfair trade practices
 - To prevent the establishment of foreign based monopolies
 - To moderate shocks from the free market (e.g. helping declining industries have time to restructure)
- **Arguments against trade by sub-groups**
 - Beggar my neighbour: arguing for trade restrictions to enable some groups to benefit at the expense of others and the country as a whole
 - Improving a country’s terms of trade by exploiting its market power, this can be from a demand monopsony or supply monopoly.

Trade theory – Economic theory

- **Elasticity**

- The responsiveness of one variable (e.g. demand) to a change in another (e.g. price).
- The more elastic variables are, the more responsive is the market to changing circumstances.
- Elasticity is an important factor in calculating the optimal tariffs.
- In international trade environment, when government of one country increase the tariff of one specific import good, the domestic demand for this good would be reduced if this kind of good is elastic. On the other hand, domestic demand would be relatively unchanged, if the good is inelastic.
- In summary, putting tariffs on elastic goods is much more economically detrimental than putting them on inelastic goods.

Trade theory – Political economics theory

- Political economics theories
 - Game theory
 - Prisoners dilemma

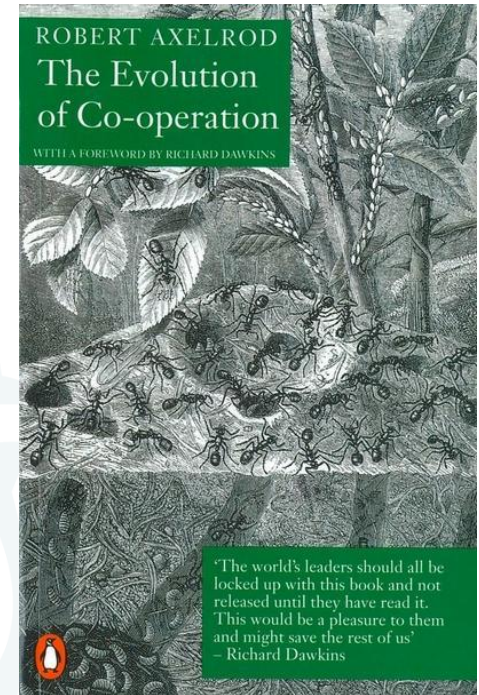
Prisoner's dilemma payoff matrix

		B	
		B stays silent	B betrays
A	A stays silent	-1 -1	0 -3
	A betrays	0 -3	-2 -2

- It's not a particularly optimistic narrative

Trade theory – Political economics theory

- Political economics theories
 - The Evolution of Cooperation – Axelrod
 - Success in an evolutionary "game" is correlated with the following characteristics:
 - Be nice: cooperate, never be the first to defect.
 - Be provokable: return defection for defection, cooperation for cooperation.
 - Don't be envious: focus on maximizing your own 'score', as opposed to ensuring your score is higher than your 'partner's'.
 - Don't be too clever: or, don't try to be tricky. Clarity is essential for others to cooperate with you.



Trade theory – Political economics theory

- Political theories
 - Rent seeking
 - Special interest groups
 - Principal-agent problem (agency risk)



Trade theory – Political economics theory

- Rent seeking, e.g. special interest groups
 - In public choice theory and in economics, rent-seeking involves seeking to increase one's share of existing wealth without creating new wealth. Rent-seeking results in reduced economic efficiency through poor allocation of resources, reduced actual wealth-creation, lost government revenue, increased income inequality, and (potentially) national decline. A rent-seeking model is necessary to consider in trade negotiations. Not just ordinary citizen's benefits need to be considered, the domestic special interest groups also affect the decisions of the government in the trade war. The minority of the population who own the wealth already could harm the majority of the population's benefits. That's usually why protectionism emerges and tariffs are raised. People in the special interest group would use their power when their interests, power or positions are threatened. International trade can result in good quality imports goods making the domestic products less popular, reducing domestic production. Domestic producers who may have the power to influence the government would push government to make protectionist strategies to imports from other countries such as tariff or non-tariff barriers. Rent seeking, whereby the individual puts their self-interest ahead of the common self-interest, is related to the principal-agent problem.

Trade theory – Political economics theory

- **Principal-agent problem (agency risk)**

- Principal-Agent Problem, or could be used by the term “Agency Risk”, the problem of agency” and “agency dilemma”, is the problem of the agent having incentives which cause them not to act in the best interests of the principal hiring them. These terms refer to the difficulties that arise under conditions of incomplete and asymmetric information when a principal hires an agent. In a democracy, people elect agents to represent their economic wishes. When hiring or electing an agent, it has a risk that the agent may make decisions for his/her own benefit instead of the client’s or voter’s interest. Because of the imbalance information between the agent and principle, they could not find out whose interests the agent represent. The risk when electing a politician is that they may make decisions not for the population’s benefits but for their special interest groups’ benefits. During this process, the character of the agent is important. There are three factors that constraint making progress in a system: attachment to the status quo, existing power structures based on self-interest and rigid hierarchies. With international trade, domestic citizens do not know if the right decisions are being made to look after their interests.

Trade theory – Political economics theory

- **Hegemony Theory**

- Henry Kissinger considered that equilibrium only occurs between two states when one has dominance or when both are at an equal level.
- For example, during the cold war, the US and the USSR were at equilibrium so there was stability.
- When the US and Japan interacted on trade in the 1980s the US had hegemonic power and arguably used it to win the trade war with Japan.
- Right now the trade war between the US and China could be considered from this perspective. The US is currently dominant but is worried about the growth of China so is trying to use its hegemonic power to prevent China from growing to an equal level with it – which is quite likely to happen.

The real reason behind the US–China "trade" war has little to do with actual trade, and everything to do with what China's president, Xi Jinping, said when he visited a memory chip plant in the city of Wuhan earlier this year. In a white lab coat, he made an unexpectedly sentimental remark, comparing a computer chip to a human heart: "No matter how big a person is, he or she can never be strong without a sound and strong heart".

What is really at the basis of the ongoing civilizational conflict between the US and China, a feud which many say has gradually devolved into a new cold war if few top politicians are willing to call it for what it is, are China's ambitions to be a leader in next-generation technology, such as artificial intelligence, which rest on whether or not it can design and manufacture cutting-edge chips, and is why Xi has pledged at least \$150 billion to build up the sector.

But, as the [FT notes](#), China's plan has alarmed the US, and **chips, or semiconductors, have become the central battlefield in the trade war between the two countries. And it is a battle in which**

"At the end of the day, we have more bullets than they do. They know it."

- Wilbur Ross, US Commerce Secretary, August 2018

Trade theory – Political economics theory

- US Trade Act of 1974
 - **Section 301** is a law giving the U.S. president the privilege to use his agent's power. Section 301 of the U.S. Trade Act of 1974 authorizes the president to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce.
 - It makes trade policy an idea tool of a demagogue / tyrant.

Trade theory – Behavioural theory

- Behavioural theories

- Considers different patterns of human behaviour.
- Use a simple model, with two behavioural types:
 - **Egoist** - agent who is competent and can look after their self-interest; who can behave in a responsible manner; and who has the capacity to cooperate in a manner that can be trusted, being capable of empathy and remorse. Aim to cooperate as per Axelrod.
 - **Brute** - agent who is driven by basic instincts; who is pretentious and brutal in their actions; who is not competent; and who does not act responsibly and cannot be trusted. They cheat without remorse.
- Egoists try to negotiate fair deals because they know that unfair deals are fragile and that the most value accumulated is from long-term trusting relationships. A individual's opening offer is often considered an indication of their behavioural type.

Trade theory – Behavioural theory

Different types of leaders – how they govern the narrative:

“A **‘good’ leader** holds his followers by demonstrating the truth of his teachings through **the Reality Principle**, and by continually **appealing to their Superegos [social conscience] and their Physis [instinct to grow]**, their desire to do the right thing. He convinces them that only by keeping the common good in mind can they attain maturity and happiness for themselves. An **‘evil’ leader** holds them differently. He first **changes their Superegos** to suit his own ends, so that they will think it a duty and a “should and ought” to do as he wants them to. This is the harder part of his task, and the more important one for this own stubborn interest. He keeps them interested by supplying them with **opportunities for crude Id satisfaction**. With their Superegos they would not have allowed themselves to **indulge in the infantile and selfish gratifications** which he now offers or if they did, they would have felt guilty and uncomfortable... **Life is complicated, and the ‘evil’ leader holds his followers by making it appear simple**. Hitler stated the principle of his kind of leadership as follows: “The great masses receptive ability is only very limited, and their **understanding is small**, but their **forgetfulness is great**. The evil leader knows that there are many ignorant people who are unhappy because they feel their own stupidity and must remain silent and obscure while the learned speak. But they have votes, and their votes are as good as anyone else’s and their shillelaghs as strong. So he lulls the already drowsy intelligent ones to sleep while he woos the ignorant. He woos them by giving them answers to that they become convinced that they too are intelligent and they fear the enlightened no more. He raises them in their own estimation and brings them a happiness they never knew before: the happiness of the sure and informed. **The answers he gives them are simple: so simple that even the dullest can use them to answer all questions**, new and old, they who never dared answer a new question before, but waited first for the enlightened to speak. He gives them an image of the world and **a sureness about this image, and sureness is what they want above all. Once they accept this image, they act in accordance with it, even in the face of reality to the contrary**. So the poor, ignorant, beaten down fellow becomes a superman. The evil leader does all he can to use his power to **twist reality** so as to make it appear like the images he gives his people to go by..... He wants to kill off all intelligent people as fast as he can before they can ask any questions about such a silly way of looking at things”.

Source: The Mind in Action by Eric Berne

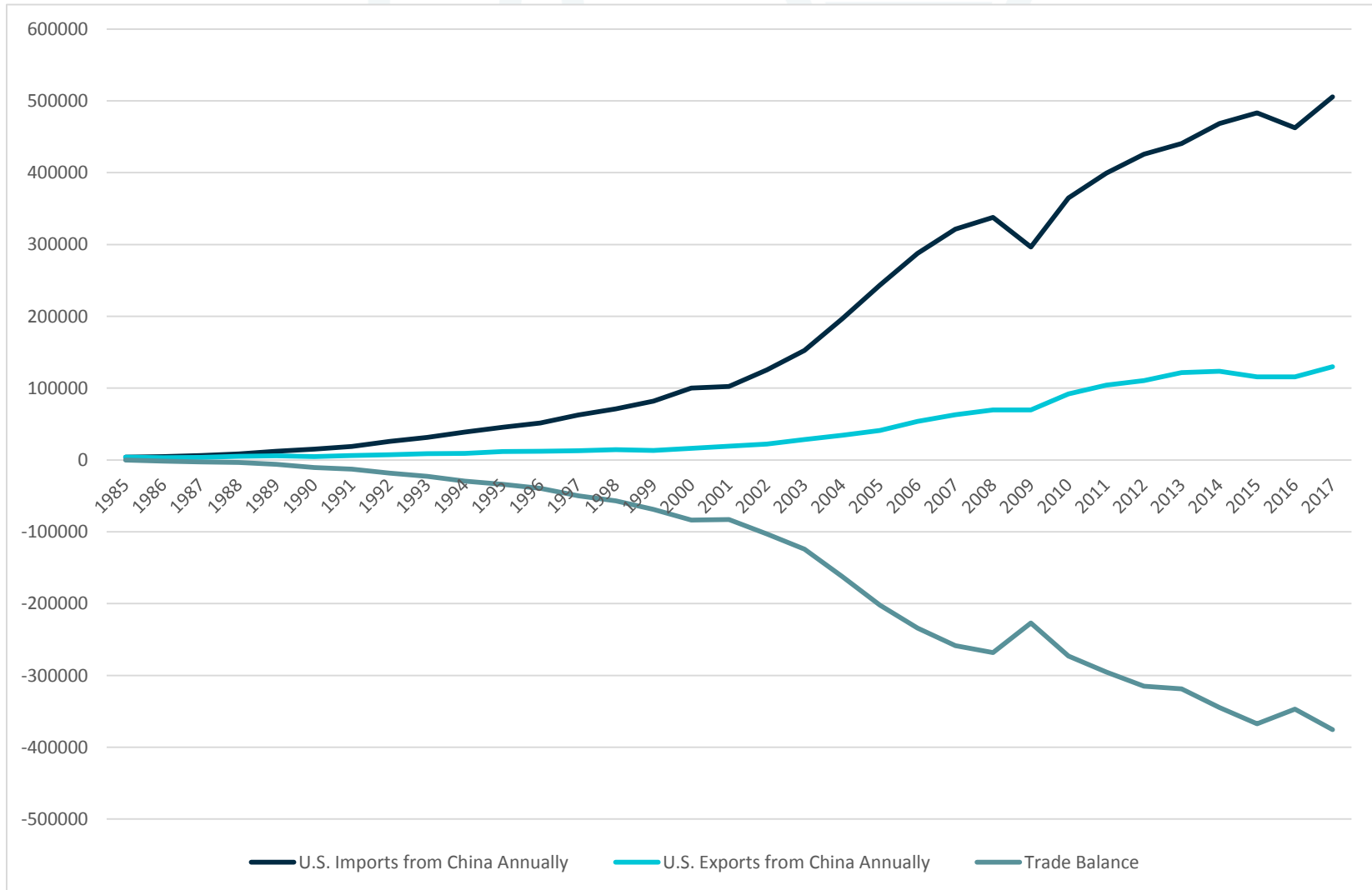
Overview of US-China trade war

Moves	Description	Dates
1 st - US	U.S. placed a 30% tariff on foreign solar panels to be reduced to 15% after four years. 20% tariff on washing machines for the first 1.2 million units imported during the year	January 23, 2018
2 nd -US	U.S. announced 25% tariffs on all steel imports and 10% on aluminum. Order signed on March 8, tariffs effective 15 days later	March 1 2018
3 rd - US	U.S. applied tariffs on US\$50 billion worth of Chinese goods including aircraft parts, batteries, flat-panel televisions, medical devices, satellites, and various weapons	March 22, 2018
4 th China Retaliation	China applied 25% tariffs on goods from U.S. including aluminum, airplanes, cars, pork, and soybeans and applied 15% tariffs on goods from U.S. including fruit, nuts, and steel piping	April 2, 2018
5 th China offer cooperation	Chinese officials agree to reduce trade deficit of America by buying more American products. US says "We are putting the trade war on hold".	May 20, 2018
6 th - US	U.S. puts new imported tariffs on \$34 billion of Chinese imports with another \$16 billion of goods for tariffs possibly following in two weeks, before suggesting the final total could eventually reach \$550 billion	July 6, 2018
7 th – China Retaliation	Chinese retaliate with similar tariffs on the same value of US goods	July 6, 2018
8 th - US	U.S. published it's final list of Chinese items subject to 25% tariffs.	August 8, 2018

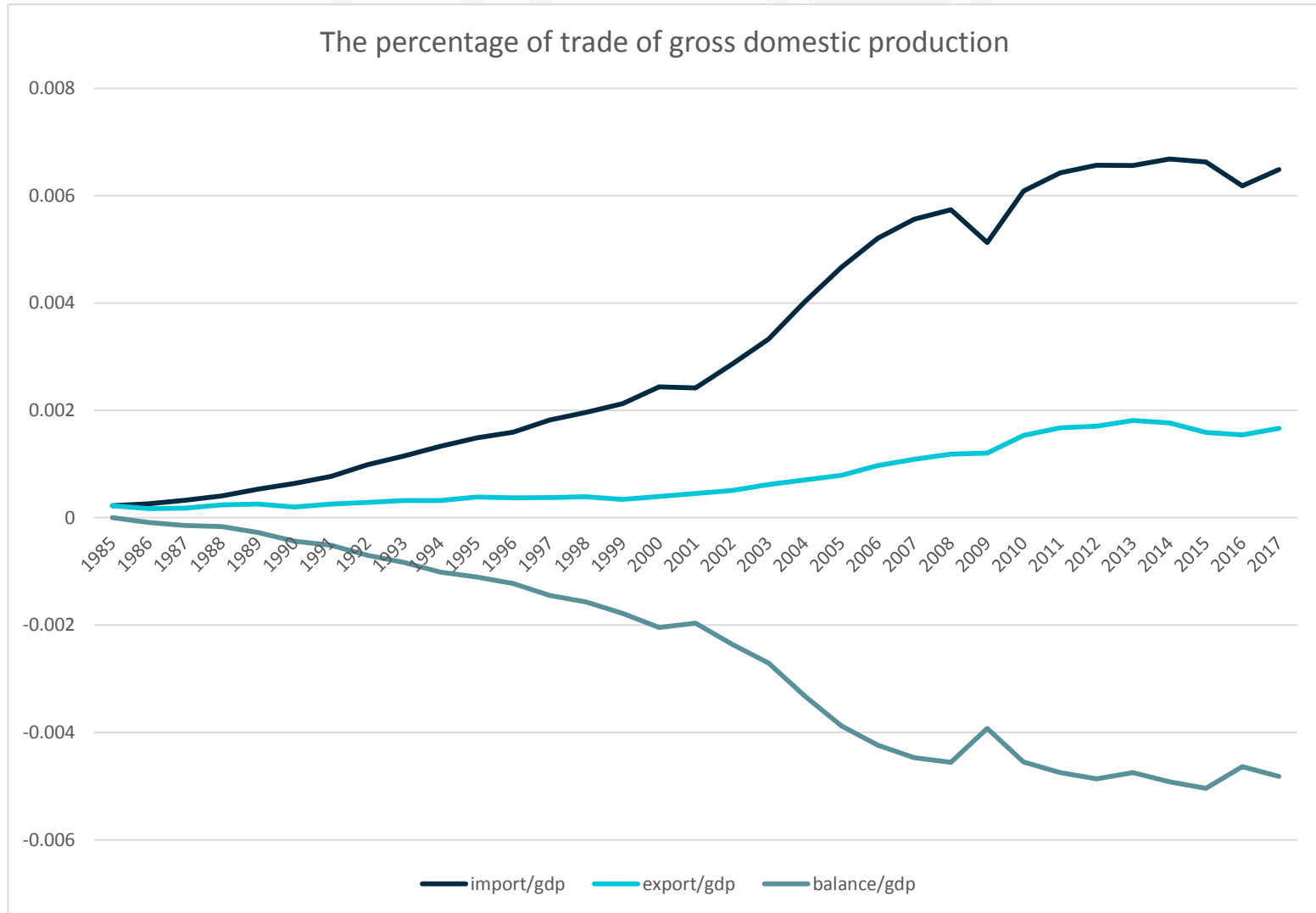
Overview of US-China trade war

Move	Description	Dates
9 th – China Report to trade police	China filled a complaint with WTO, claiming U.S. tariffs disobeying WTO rules and harm international markets and China's legitimate trade interests.	August 14, 2018
10 th China Retaliation	China decided to impose 25% on U.S. 16 billion products to keep pace with America's tariffs.	August 23, 2018
11 th - US	U.S. announced its 10% tariff on \$200 billion worth of Chinese goods would begin on September 24, increasing to 25% by the end of the year	September 17, 2018
12 th – China Retaliation	China immediately retaliated 10% tariffs on 60 billion worth American goods on September 18th	September 17, 2018
13 th - US	The promised tariffs were postponed. U.S. stated both parties will begin negotiations. But the daughter of the founder of Huawei is arrested in Canada on the same day	December 1, 2018
14 th – China Cooperating	China decided to suspend the imposition of tariffs on American automobiles and parts for three months from January	December 14, 2018
15 th - US	U.S. president stated to postpone the increase in tariff which would happen in March of 2019 (Feb 24 th). Trump asks China to remove its agriculture tariffs because the US did not increase tariffs – but the same day that Canada allows extradition of Huawei CFO to the US (March 2 nd)	February 24, and March 2 nd , 2019

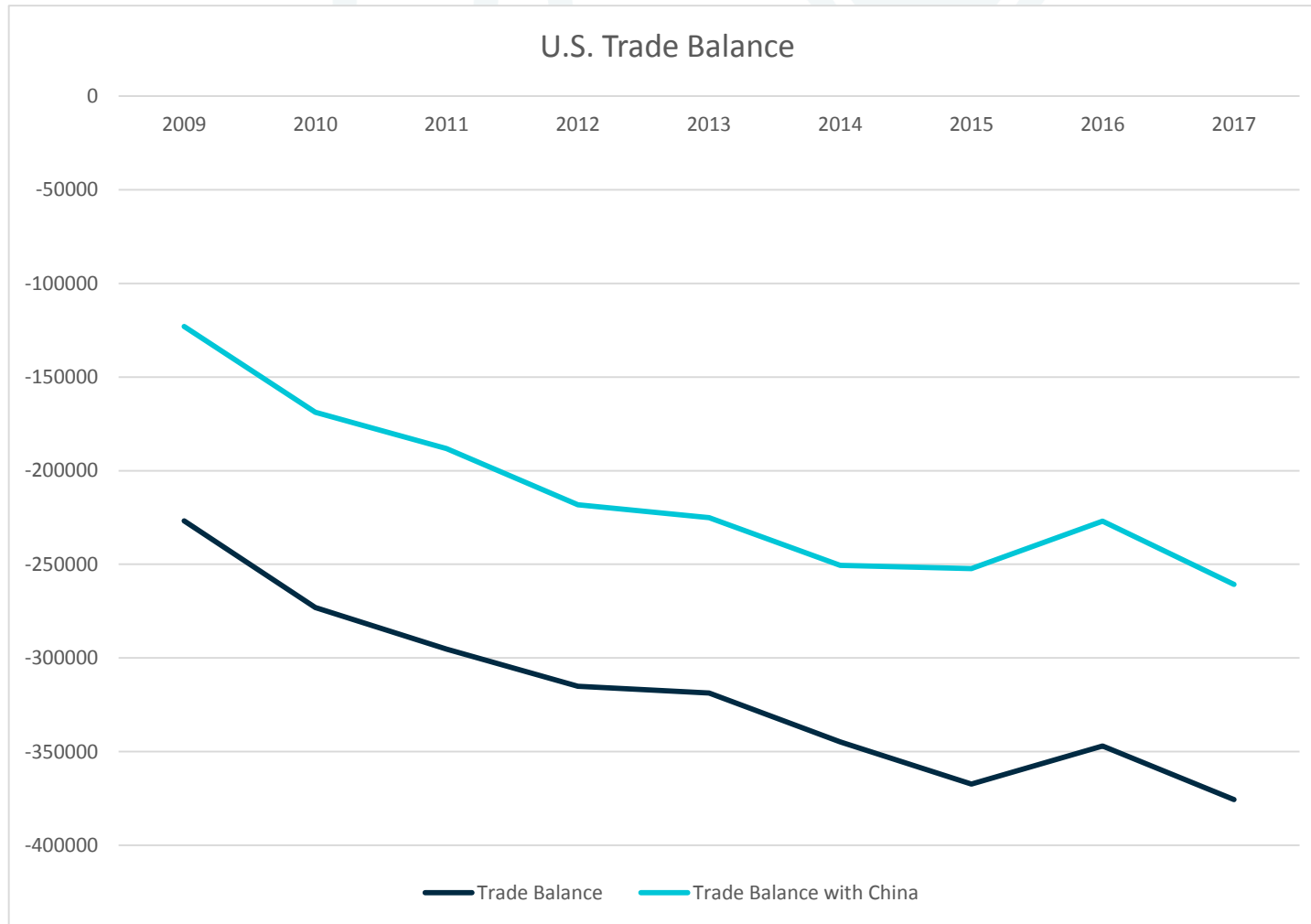
Data – US Imports and Exports to US



Data – US Imports and Exports to US

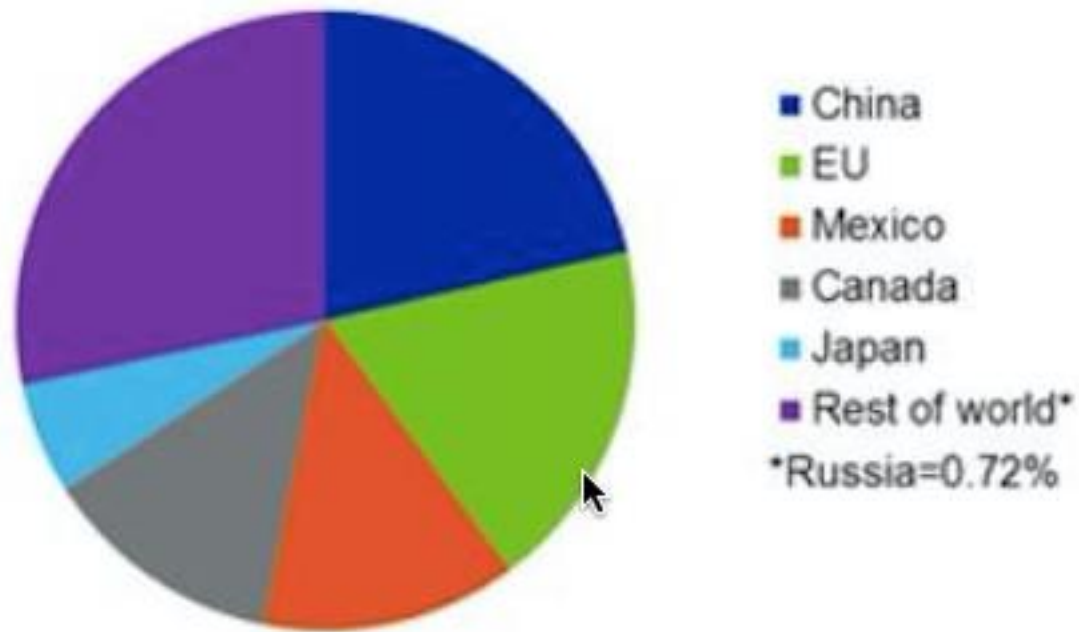


Data – US Imports and Exports to US



Data

Share of total U.S. imports by value, 2017



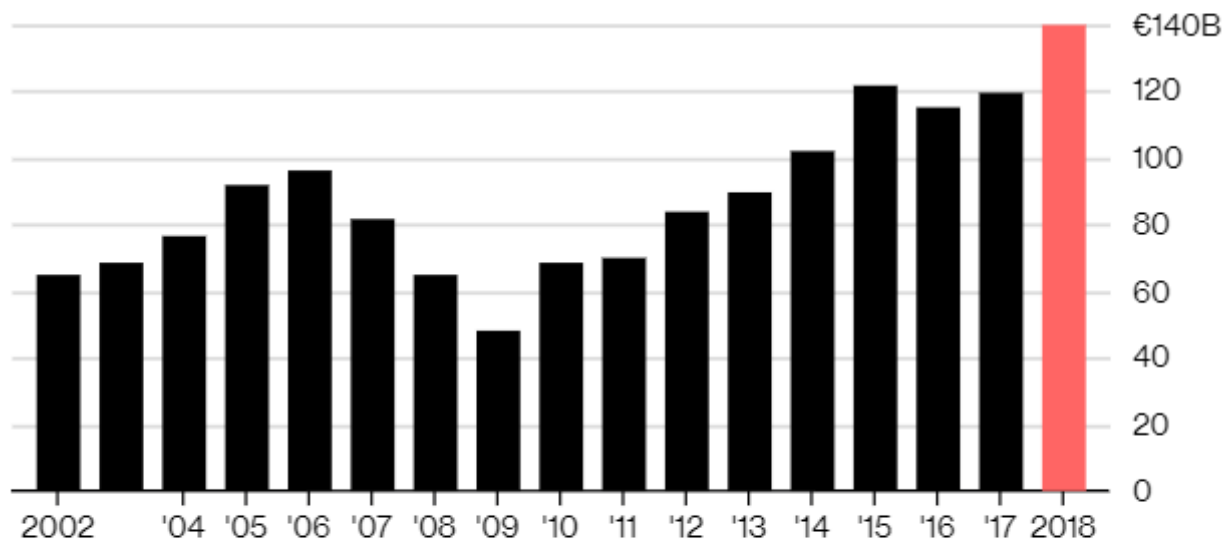
Sources: Census Bureau, Moody's Analytics

Data

Off Balance

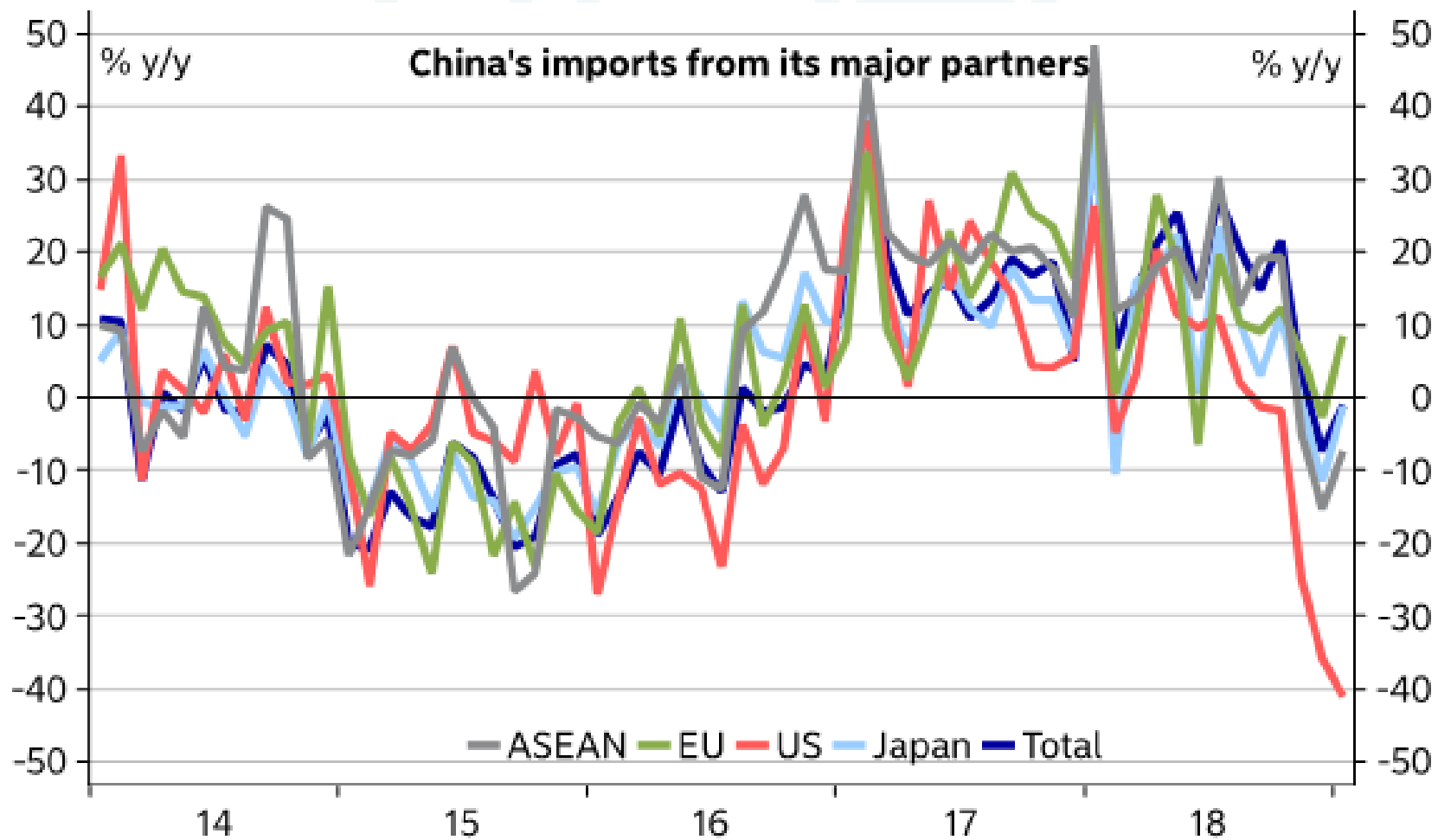
The EU's trade surplus with the U.S. just keeps growing

■ EU trade surplus with U.S.



Source: Eurostat

Data



Source: Nordea Markets and Macrobond

Data



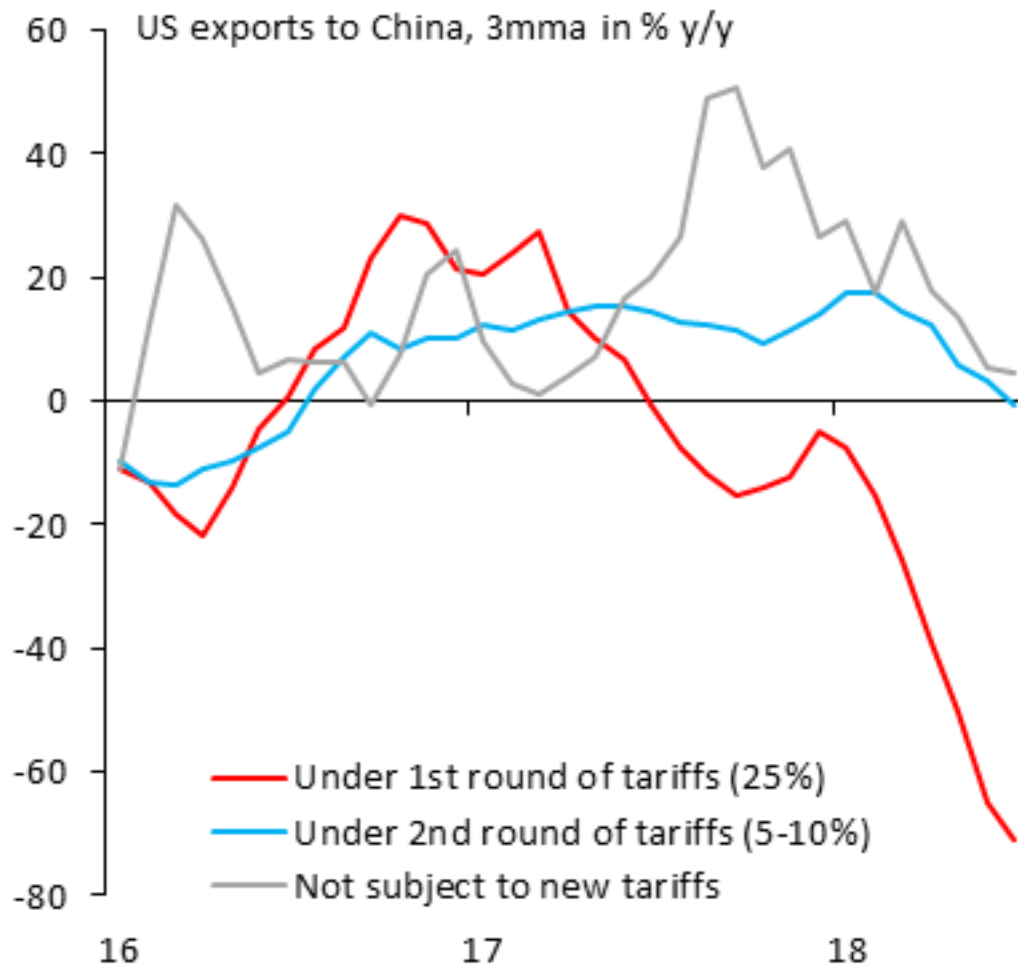
Christophe Barraud  
@C_Barraud

  #Trade with the U.S. declined in Jan. with exports to the U.S. in dollar terms dropping by 2.4% YoY, and imports slumping by 41.2% YoY. *It confirms that the tariffs had a significant impact.

Global Times  @globaltimesnews

China's imports and exports from the US largely slowed in Jan, showing that the uncertainties of the China-US trade situation are forcing the market to take risk averse measures: Bai Ming, deputy director of MOFCOM's International Market Research Institute

Data



HUFFPOST

POLITICS

Trump Trade War Triggering \$1.9 Billion Plunge In Farm Exports: USDA

Soybean exports to China have fallen more than 90 percent.

By Mary Papenfuss

02/22/2019 05:13 AM ET

Data

The Chinese have all but stopped buying US soybeans. Farmers in North Dakota are building mountains of soybeans and hoping the situation improves before the beans rot.



Their Soybeans Piling Up, Farmers Hope Trade War Ends Before Beans Rot
[nytimes.com](https://www.nytimes.com)

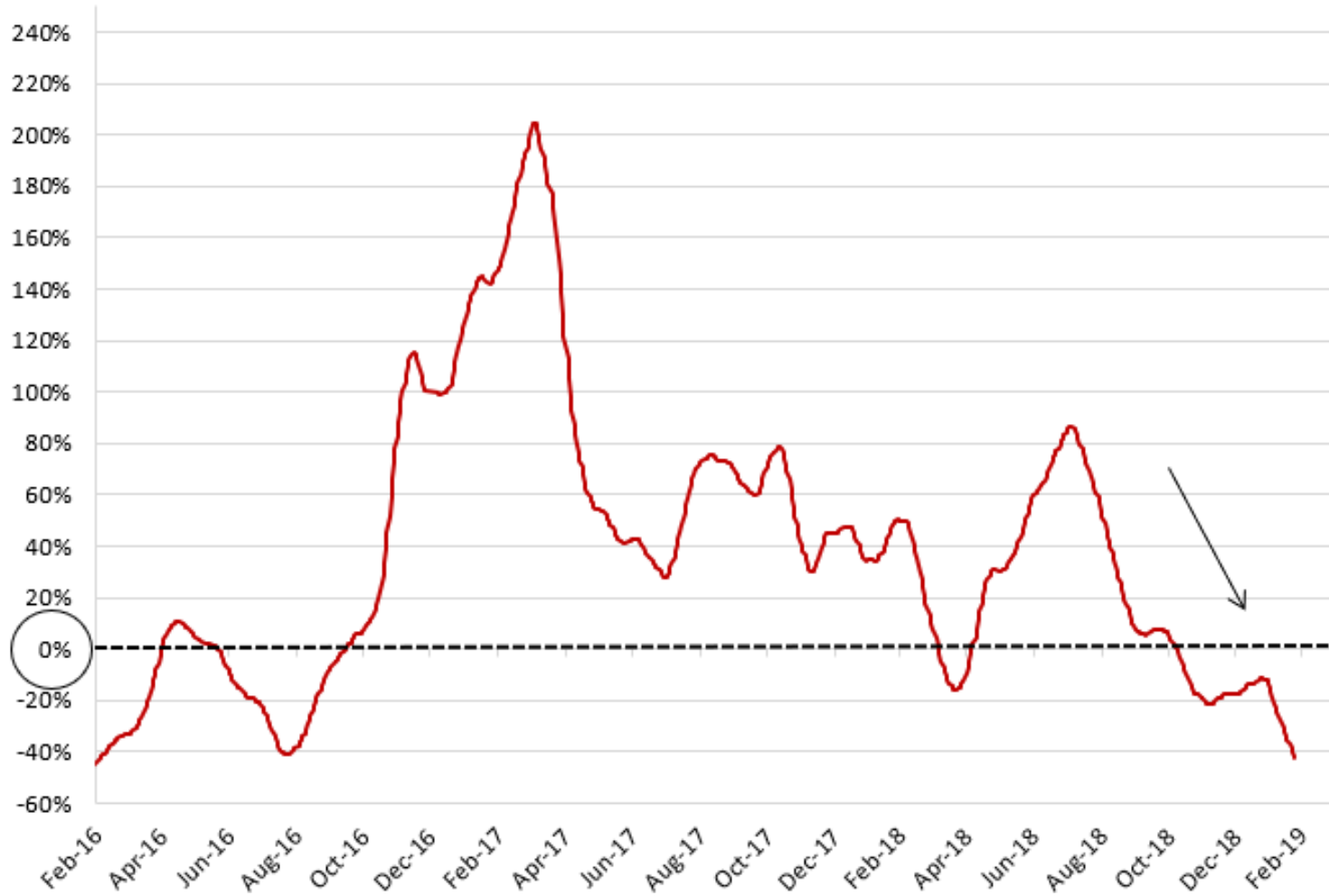
Data



Data



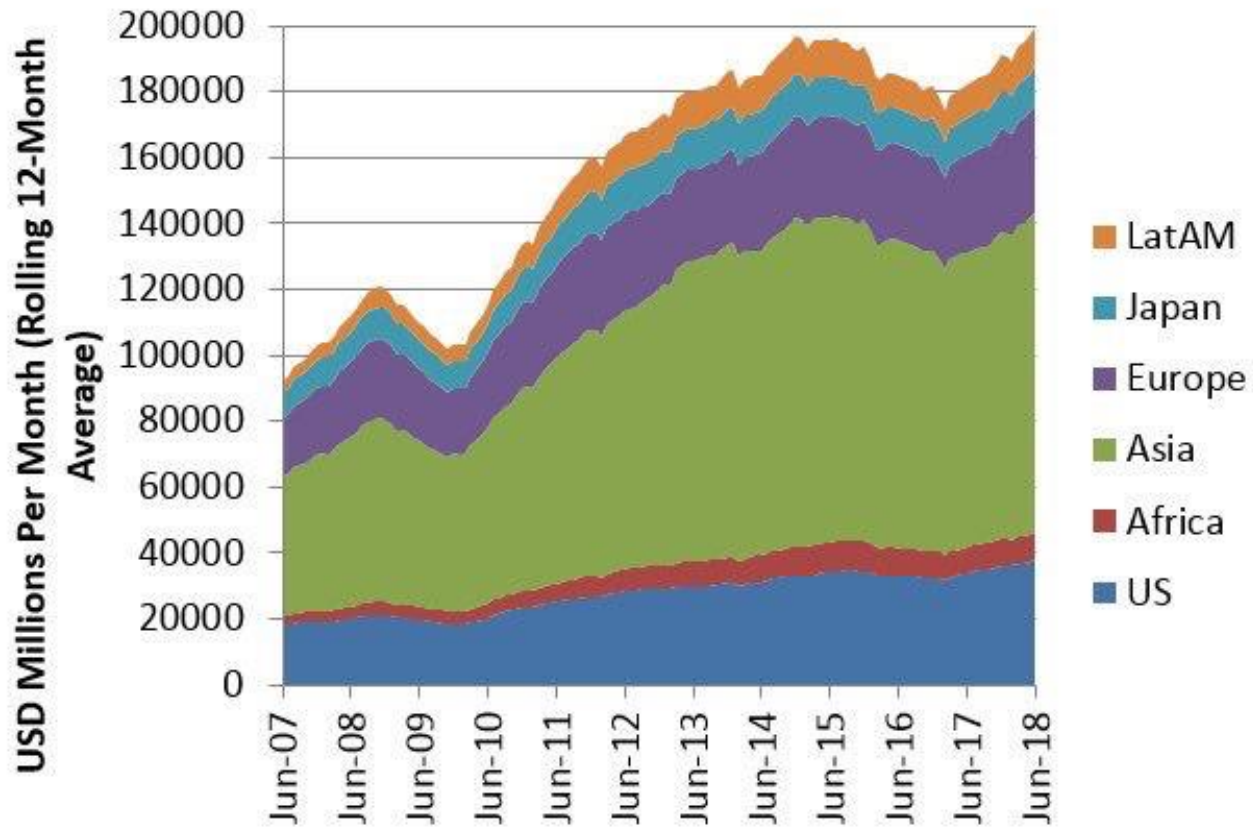
— Baltic Dry Index (20-day moving average) YoY



Data



Chinese Exports by Region



Analysis of trade moves

Criteria/Moves	1-3,6,8,11,15 US	4,7,10,12 China	13 US	5,9,14 China
Adhering to the Law of Comparative Advantage	NO	NO	Hmm	YES
Potential influence from Special Interest Groups	High	Some	High	Negative
Elasticity / Optimal tariff considered	Doubtful	Doubtful	Doubtful	Doubtful
Potential Boycotting or similar	Yes	Yes	Yes	Yes
Hegemonic power	Yes	No	Yes	No
Egotist or Brute like	Likely Brutish	Likely Egoist	Likely Brutish	Likely Egoist
Potential agency risk	Yes	Some	Yes	Some

Analysis of trade moves – for perspective



Helen McEntee TD 
@HMcEntee



Good news this morning that the EU Parliament has approved the EU-Singapore Free Trade Deal   - this deal will be a boost for businesses in Ireland and help to strengthen our ties with South-East Asia

[#FutureOfEurope](#)

Analysis – Leadership assessment

- Let's look at the leaders
- First up, Xi Jinping..



Analysis – Leadership assessment

- Educated?

bbc.com

Xi Jinping: US-China trade war will produce no winners

🕒 17 November 2018

f 📧 📧 🐦 🔄



Countries which embrace protectionism are "doomed to failure", China's Xi Jinping has warned in a veiled swipe at the US's America First policy.

Mr Xi was speaking at the Asia-Pacific Economic Cooperation (Apec) summit, where US-Chinese tensions are likely to be centre stage.

Analysis – Leadership assessment

- Prudent and competent?

Chinese President Xi Jinping at the Great Hall of the People on Nov. 2, 2018 in Beijing, China.

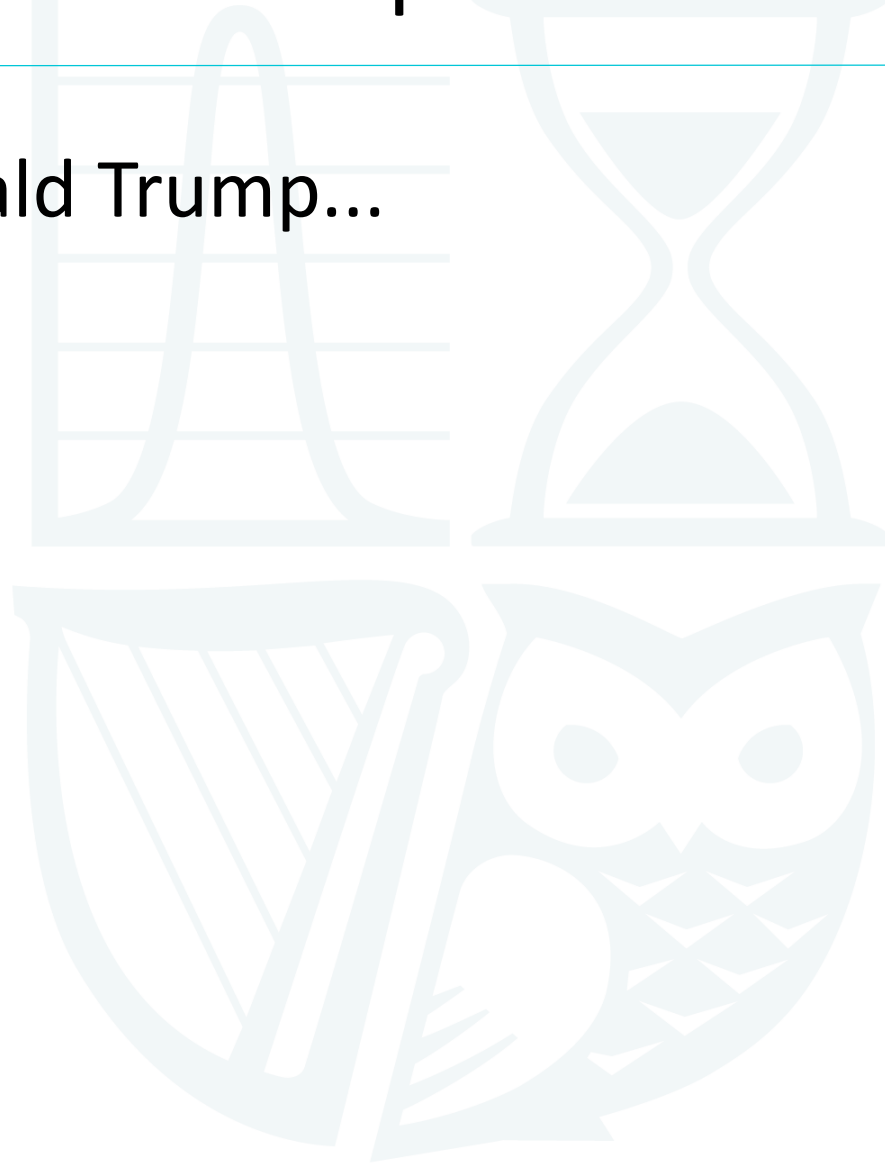
China should seek stable development of its economy while not forgetting to fend off risks to its financial system, Chinese President Xi Jinping said, state news agency Xinhua reported on Saturday.

China's economy is growing at its slowest pace in almost 30 years, spurring policymakers to bolster growth by easing credit conditions and cutting taxes.

"It is necessary to focus on preventing risks on the basis of steady growth, while strengthening the countercyclical adjustment of fiscal policy and monetary policy and ensuring that the economy operates in a reasonable range," Xi said.

Analysis – Leadership assessment

- Now, Donald Trump...



Analysis – Leadership assessment

- Educated?



Donald J. Trump ✓
@realDonaldTrump

Trade negotiators have just returned from China where the meetings on Trade were very productive. Now at meetings with me at Mar-a-Lago giving the details. In the meantime, Billions of Dollars are being paid to the United States by China in the form of Trade Tariffs!

17/02/2019, 00:17

16.3K Retweets 72.6K Likes



Donald J. Trump ✓
@realDonaldTrump

Tariffs are the greatest! Either a country which has treated the United States unfairly on Trade negotiates a fair deal, or it gets hit with Tariffs. It's as simple as that - and everybody's talking! Remember, we are the "piggy bank" that's being robbed. All will be Great!

24/07/2018, 12:29

3,595 Retweets 13.9K Likes

Was he educated? Are his advisors educated?

These are lies: tariffs are collected from importers – people in the US that pay the tariffs. Ever bought something online from the US – and were charged customs duties?

Analysis – Leadership assessment

- Educated?



The infamous “Trade wars are good, and easy to win” tweet.

Analysis – Leadership assessment

- Crude Id gratification anyone?



Donald J. Trump 
@realDonaldTrump

Great meeting with [@KimKardashian](#) today, talked about prison reform and sentencing.



30/05/2018, 23:59

25.8K Retweets 91.5K Likes

Analysis – Leadership assessment

- Abuse of office?



Analysis – Leadership assessment

- Pretentiousness anyone?

Trump: Low Interest Rates Are Great For Rich People Like Me, Bad For The Country

Posted By [Tim Hains](#)
On Date September 12, 2016

Trump says he would like to see the Federal Reserve lower interest rates

[Fred Imbert](#) | [@foimbert](#)

Published 3:55 PM ET Tue, 20 Nov 2018 | Updated 5:58 PM ET Tue, 20 Nov 2018

Trump knows that winning public arguments is not about winning the analysis, it's about winning the narrative! Once people follow Trump's narrative, he wins!

Analysis – Leadership assessment

- Pretentiousness anyone?

"An unexciting truth may be eclipsed
by a thrilling falsehood."
- Aldous Huxley



Our primary psychological hunger is for stimulation and sensation. Trump feeds psychological McDonalds to people. Makes them feel good short term, sick long-term. Without a credible alternative leader, providing an alternative, people want to eat.

Analysis – Leadership assessment

- Bullying anyone?



Is this like saying “I didn’t beat you up today so give me your lunch money” ?

Analysis – Leadership assessment

- Demagogue tactics anyone?



"Accuse the other side of that which you are guilty of." -Joseph Goebbels

- Is Hilary corrupt ? Is Comey a liar?
- Demagogues – tiny bit of truth but without proportionality
- Aristophanes' analogy of the sausage-seller

Analysis – Leadership assessment

- Misleading and corrupting the masses?

"Sociopaths...have lifelong patterns of deceitfulness for personal gain. They lack remorse and empathy and are wizards at rationalizing away how they hurt and mistreat others."

— Gary Small



So little pains do the vulgar take in the investigation of truth, accepting readily the first story that comes to hand.

- Thucydides,
History of the Peloponnesian War, Book I, 1.21-[3]

classicalwisdom.com

Conclusion

- You won't see much mention of the law of comparative advantage, game theory, rent seeking, hegemony theory and behavioural analysis in media narratives
 - But understanding these is essential to see the big picture
 - The Chinese boycotts don't get much media attention either
- The US is using its 'might' to win the trade war – probably aiming to use similar strategies to those used against Japan in the 1980s and 1990s.
 - Will it win or will China be stronger adversary?
 - Is it in the world's interest for the US or China to win?
- Trade wars are destructive and economically barbaric.
 - Ireland knows this intimately from its history.

Deeper Conclusions

- Dealing with those who have brutish characters and naturally only seek what they want rather than trying to cooperate to get the best overall outcome is difficult. Typically brutes are pretentious so will try to distorted arguments against trade to support their self-interest, even though their arguments are nothing but distorted rationalizations.
- Standing up to brutish characters is costly and dangerous as if they are attacked, they are typically prepared to destroy themselves just to defeat their enemies. This is designed to create fear.
- In the absence of adherence to the principles of progress and the cooperation that they would recommend based on the law of comparative advantage, non-cooperative Nash equilibrium outcomes will be achieved – a lose-lose outcome.
- This can result in tit-for-tat retaliation that, in a repeated game, leads to a trade war, in the absence of intervention by those pursuing the progressive principles.
- In the US-China trade war, the US is the bigger economy and therefore has “Might” on its side. The US can force outcomes that it wants but if it does so it harms both China and itself. The problem for the US is if those in power in the US are of brutish character, then a poor overall outcome will likely be achieved. The US might hurt China, slowing down China’s progress toward an economy the size of the US, but it also hurts the US, slowing down its own progress.



Society of Actuaries in Ireland

Irish Business & a World with More Border

Danny McCoy



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Closing & Q&A
