

### **Insight #3: Economic Endurance: Trade War Analysis from a Cultural Prism**

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#### **Economic Endurance: Trade War Analysis from a Cultural Prism**

Currently there is plenty of insight into Trump's instigated trade war, and most approach it from a political or economic lens in an attempt to rationalize his actions. Immediate and intermediate order effects are frequently debated and the magnitude to which they will impact our markets. However, we believe that an underestimated and valuable perspective is adopting a cultural lens to explain the backdrop of current affairs. Cultural factors frequently act as a subtle yet overpowering impact, yet are often overshadowed by direct economic and political ramifications. We believe through 2 specific cultural lenses, China may be more-equipped to endure the pressures of the trade war.

We believe the first critical cultural divergence emerged from COVID-19 pandemic era. The pandemic largely parallels the risk profile of today's trade war as it paralyzed global markets on a more extreme level. We believe cultural insight gleaned from the pandemic era is largely undervalued by the market today. China's population is a whopping 1.4 billion people. Given the large quantity of cities and population, quarantine and pandemic policies were extremely strict as President Xi imposed the Zero COVID policy. Amongst many stringent rules (COVID app tracker, daily testing, etc), the entire country of a billion more people was forced into mandatory lockdown that lasted a few months. Overall, sentiment echoed "reluctant obedience". This illuminates a cultural and civic duty of Chinese people to follow procedures and obey regulations. On the other hand, when the US felt the effect of the pandemic, roughly 250 million people experienced an elevated level of political pushback, polarized public sentiment, and even some public scrutiny against health officials. This was because cultural duty was different — civic norm was and still is to safeguard one's personal and thus collective freedom. Statistically, this resulted in the US having the largest cumulative number of COVID cases globally, while China was ranked 92nd. Delving deeper, China had the lowest COVID cases per 1 million capita — globally.

The second critical divergent cultural theme is money saving. Looking at household balance sheets, China has had a personal savings rate that has been increasing from high 10s% in 1980 to recent 30s%. While government stimulus and provisions throughout have contributed to this increase, a hidden and underlying cause was China's One Child Policy in the 1970s. Because of the policy, it instilled cultural norms of "quality over quantity" spending towards their only child, combined with filial obligations rooted in traditional Confucian culture that have been magnified from an increasing elderly demographic. Today, this savings behavior is largely normalized and embedded into China's cultural norm. On the other hand, the US household savings rate has long fluctuated between 5-10%. The only outlier was COVID years where spending was forcibly higher due to lockdown policies. In a country where consumers save 5 cents on every dollar, economic shockwaves impact US consumers on a larger scale as the variable spending occupies a larger portion of household balance sheets. Thus, US consumers can almost immediately notice the uptick in Walmart's aisles and are quick to object.

We believe these sets of diverging cultural norms will be of primary importance in analyzing the outcome of today's trade war. Under Trump's attempt to dismantle globalization and reshore manufacturing, cultural differences will serve to amplify behavior by both countries. The first cultural norm leads us to argue that China may have a higher threshold for tolerance if the government frames the issue as a national duty. The second cultural norm leads us to argue that China's high savings can cushion consumer demand, while low savings will magnify consumer blowback towards price hikes.

Already these cultural norms are revealing themselves under both governments. Trump attempts to gain leverage for negotiation through sweeping tariffs, reflective of their cultural norms of gaining individualism and autonomy. China's Ministry of Finance recently stated that "if Washington continues to impose and increase tariffs, Beijing will pay no heed", reflective of their cultural norms of patience and resilience.

We believe this war is ultimately a game of economic endurance. Both countries have sufficient firepower to land blows against another, but the difference lies in who can survive longer. We believe that a society that not only tolerated months of strict lockdowns without mass unrest, but also saved a third of their income has the economic endurance against a society that bristled at mask mandates and saved cents on the dollar. Underneath political and economical rhetoric lies cultural norms that unites peoples of respective countries, and we believe that this tariff war will cause the US to reach maximum stamina before stock markets and public patience is depleted.

This perspective also leads us to believe that in the following months, Trump will need to find an off ramp from the tariff highway to prevent loss of national stability.