

Thucydides Trap & Trade Wars

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The outcome of the continuing trade war between the USA and China is difficult to forecast. At Tacit, we don't believe in reading tea leaves, which our peers in the industry fancifully refer to as economic forecasting. We do however believe in looking at history as a rough guide to the future.

The tension between a rising power and an established power has been a trademark of human civilisation from around 400 BC. The fear of a rising power was the catalyst that initiated the Peloponnesian wars between Sparta, the then established power and Athens, the rising power. This is known as Thucydides trap which states that tensions between a rising power and an established power usually leads to war. This is however not always true as we saw in the cold war between the United States and the USSR where the only missiles that fired were verbal.

While Thucydides' trap concerns itself with wars involving physical combat between opposing armies, political combat between opposing economies has been more frequent in recent years, especially between major powers.

Take the chicken wars of the 1960s for example. France and Germany imposed high tariffs on American chickens and the USA responded by slapping tariffs on French cognac and German trucks while also threatening to slash NATO troops to Europe. Consumers on both sides of the Atlantic ended up having to fork out more money for no reason. Sound familiar? To paraphrase Mark Twain, history does not repeat itself, but it certainly rhymes.

Tensions between a rising and established power are normal. They are not a bug but a feature of human civilisation – admittedly an annoying feature but one we must learn to live with.

At Tacit, we try to be stoic about these things. We won't try to predict what President Trump will say or do in the coming weeks because Trump himself may not know what he will say or do in the coming weeks. This is why stabilisers like government bonds and gold are an important part of all our strategies – to act as a hedge against the uncertainties of the market.

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