

# STORM WARNINGS

Volume 7, Issue 2 - July, 2018  
The "Tip of the Iceberg" Trap



**R. Michael Conley**  
*Founder*

"We are heading into a perfect storm and don't see it coming," according to R. Michael Conley, Founder of Weathering the Storm, LLC and this website.

The WTS mission is to "Awaken, engage and help others to weather the storm."

The WTS website provides the following on a regular basis:

**Storm Warnings:** An in-depth quarterly newsletter.

**News Flash:** Frequent postings on topical perfect storm issues.

**Best Practices:** Featuring leaders in sustainability practices.

## The "Tip of the Iceberg" Trap

The Perfect Storm – a confluence of powerful forces on a collision course – is an existential threat that lurks in our pathway. Yet, like an iceberg in a busy sea lane, we are fixating on the iceberg's tip instead of the real dangers below the waterline. Using the trade war threat as an example, our Publisher, R. Michael Conley, discusses the toxic influence of "iceberg thinking" on a host of perfect storm issues.

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**WTS:** Let's start from the beginning; what do you mean by "iceberg thinking?"

**Conley:** It describes a tendency to look at potential threats through a limited line of vision; mainly, the tip of the proverbial iceberg we see directly in front of us. While fixating on the tip of the iceberg – representing about 10% of its total size – the threatening critical mass below the waterline is ignored.

It means looking at complex issues superficially, overlooking the collateral threats surrounding them, and failing to identify and connect the crucial dots that systemically frame the threats we're addressing. By missing the forest for the trees, we invite an intrusion of unintended consequences. Our current posture on international trade – and the trade war that could escalate from it – is a good case in point.

**WTS:** Why do you use the looming trade war threat as an example of iceberg thinking?

Conley: It personifies iceberg thinking at its worst. International trade is structured around a complex set of moving parts. Its visible tip – the account balances that comparatively tally the goods and services imported and exported between nations and the surpluses and deficits they generate – is only a part of the equation. It fails to account for the churning forces below the waterline – all important in their own right – that make the system work.

Those collateral forces include things like currency exchange rates, existing trade agreements, alliances, and trade protocols; the complex supply-chain mechanisms and the interconnected flow of global resources, and the global infrastructures that facilitate trade like the World Trade Organization (WTO), central banks and financial markets. The domestic agendas of almost 200 different nations – all

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### **About the Founder:**

Mike Conley is the Founder of Weathering the Storm, LLC and Chairman & CEO of the Conley Family Foundation. As a former Fortune 500 business executive, author, lecturer, and public policy activist, Conley has written and spoken on topics related to the perfect storm. He graduated from the University of Minnesota, after serving in the U.S. Navy, and later completed a post-grad program at Stanford University. He is active on several boards and advisory groups.

with their own goals and aspirations – also influence the dynamics in different ways.

In this complex labyrinth of moving parts, a tweak in one area can spark seismic tremors across the global landscape – and unpredictability is not something the markets like. The risks of unintended consequences are unlimited when problems are too narrowly defined, and a myopic focus can lead to firestorms in areas never considered.

**WTS:** Is that why our trade offensive is sparking such a powerful backlash from other nations?

**Conley:** Indeed. International trade and the collateral issues related to it go right to the jugular of a nation's economy, national security, and well-being. It's a major reason why multilateral trade agreements take years to consummate. Every trade feature has powerful advocates, and it requires a good amount of 'give and take' to balance out all the moving parts. It's something we should think long and hard about as we consider ripping up and renegotiating new trade agreements.

Given the enormity of the American economy and its impact on almost all other economies, even a hint of a trade war with the United States sends shock waves around the world. As a major architect of the international trade system, our current rebellion against long-standing trade agreements we helped create is inexplicable to many. Our claim of not being "treated fairly" has a hollow ring that some would dismiss as myopic thinking.

It's easy to cherry-pick the flaws – or facts – in an agreement rather than measure a treaty in its totality and what it accomplishes in the greater scheme of things. Clearly, it's fair to cry "foul" when we think another nation is "gaming" the system, but that's why there are dispute mechanisms in place. Some think that scrapping a treaty and starting over is preferable to working through the WTO to settle disputes, but it undermines the integrity of the process and complicates future agreements. In world trade, trust and credibility matters.

**WTS:** You mentioned cherry-picking the "facts." Can you give me an example?

**Conley:** There are countless examples, but one that comes to mind are claims that our neighbor and ally, Canada, is fleecing us with an unfair trade balance. The facts suggest otherwise: In 2017, for instance, we had a trade deficit in "goods" with Canada of \$17.5 billion, but we also had a trade surplus in "services" of \$25.9 billion. By my math, that's an overall trade surplus for us of \$8.4

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billion, but Canada still got villainized. My point: It's easy to cherry pick numbers to make a case, but things look different when we step back and look at the bigger picture.

**WTS:** Back to something you said earlier, do you think the United States is being treated "unfairly" or are we thinking, perhaps, a little too myopically?

Conley: It might be a little of both, but I would weigh in more on the latter. While we've every right to protest the theft of intellectual properties and technologies or other trade and tariff inequities, there are compensating balances that must also be considered. The United States enjoys advantages that others don't have. Our *Dollar*, for instance, is the premier global reserve currency, and that's worth a lot. The *Petrodollar* system (See: "[Our Dirty Little Secret](#)") provides us with access to cheap capital. As a key designer of the global trading system – the one we're now contesting – we also have a host of built-in advantages that richly favor us. (See: "[An Attitude of Gratitude](#)"). Go figure it!

Our myopic approach invites a retaliatory backlash that could trigger a trade war or worse.

Sovereign nations won't just roll over and let us have our way. Riling our traditional trade partners and allies with threats of renegotiating treaties or walking away could lead to our being ostracized; on the outside looking in and wondering why other nations are working around us.

**WTS:** Some have suggested that it's all a bluff to get a better trade deal. What do you think?

**Conley:** I'm sure much of it is wrapped in that "art of the deal" mentality, but issues like this can take on a life of their own. Brinkmanship is a dangerous game to play with the global economy, and we're deluding ourselves to think others will cave to our demands because of our size and might. I'll say more about that later.

At the moment, the world is stunned and outraged by our threat of a trade war and waiting to see if we mean business. Several major nations have already responded with retaliatory tariffs of their own. Strategically, if China is our major threat, why alienate our allies with tariffs when we need their support to leverage our efforts? Frankly, it's hard to see how a trade war against so many other major nations will not end badly for us.

**WTS:** What effects will retaliatory tariffs have on American businesses, the consumer, and economy?

**Conley:** Most economists and trade groups agree that new tariffs are not a good thing for anyone but a few select groups that will enjoy only a temporary advantage. For consumers, tariffs are a pass-thru tax they'll pay in the form of higher prices. For manufacturers, it will mean paying more for materials they import and later use in their finished products. For American exporters faced with retaliatory tariffs, it will mean the products they sell overseas will cost more and become less competitive.

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Initially, the retaliatory tariffs placed on American exports will be measured and selective, but over time could become pervasive and go well beyond just trade alone. Our agri-businesses, aircraft manufacturers, and others are particularly vulnerable. Domestically, the unintended consequences could be equally severe. Companies like Harley-Davidson and others may move some production overseas to avoid tariffs and protect their market share; more jobs lost in America. It's hard to make a case for the tariff and trade wars that could easily follow.

**WTS:** You mentioned retaliatory actions that could "go far beyond just trade alone." Like what?

**Conley:** With so much at stake, nations will use every tool in their arsenal to protect their interests. Trade policy has to be considered within a broader context of the entire geopolitical spectrum and more than just a one-dimensional trade arrangement with another nation. In this global milieu, we'd be wise to remember that our country is deeply in debt and dependent on foreign creditors to help finance our deficits. They have far more leverage over us than we might like to think.

China alone holds about \$1.3 trillion in our securities – over 5% of our GDP. If things turned nasty, they could accelerate the divestiture of their holdings in our securities and cause our government to scramble for new buyers to fill the void. We'd need to pay a higher rate of interest on government securities to attract buyers and this would cause interest rates to climb across the board. The impact of these higher rates on our economy could be significant.

The ill-will generated by the United States on trade thus far has tarnished our brand as a reliable partner. (See: "[The Shifting American Brand](#)"). Hubris aside, we may not be as indispensable as we think. China, for one, will be more than happy to fill any voids left by our actions. Other types of retaliatory actions could also follow. For example, as the only nation not signed on to the Paris Accord, a carbon emissions tax on future exports is entirely possible. Clearly, there's far more at stake here than trade alone and the collateral damage could be severe.

**WTS:** You've outlined the impact of *iceberg thinking* on global trade; is there a pattern here that might negatively impact our response to other perfect storm threats?

**Conley:** Yes, unfortunately. The perfect storm threats are global in nature and require collaborative global solutions. By limiting our scope of thinking, over-fixating on short term actions, ignoring long term intergenerational consequences, and engaging in zero-sum game "I win-you lose" approaches, we undercut the thoughtful, collaborative effort needed to address our perfect storm challenges.

The challenges are daunting. Climate change knows no borders or boundaries. The open oceans of the world are being polluted with waste and dying coral reef systems. A growing population with rising expectations and heftier consumptive patterns is straining the carrying capacity of our planet to provide. The transition to clean energy systems could be a race against time. Cyber warfare, nuclear proliferation, global debt, and poverty also threaten the well-being of the entire world, and the need for global collaboration has never been greater.

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A global effort cannot be achieved with *tip-of-the-iceberg* thinking. For the sake of the world, the United States can't afford to go AWOL at this critical time. While pulling out of the Paris Accord on climate change (See: "[Climate Change: What's Next?](#)") was, perhaps, the most egregious example of iceberg thinking, we have also walked away from or threatened to dismantle other important agreements. We're no longer the only game in town, and retrenchment and unilateralism is not a winning strategy.

**WTS:** How will our thinking have to change if we are to effectively address the trade war and perfect storm threats in our pathway?

**Conley:** At this point, we lack the political will to change as needed, but there's hope if we can: 1) recalibrate our thinking and widen our worldview, 2) act in systemic ways that will connect all the appropriate dots, 3) seek intergenerational and collaborative long-term solutions, and 4) build bridges and not walls that will reinforce global mechanisms of change and leverage our ability to address the perfect storm that looms in our pathway.

Mike Conley

For more information, please visit our website at [www.weatheringthestorm.net](http://www.weatheringthestorm.net)