Managing Fragmentation: *Trade, technology, and global supply chains*

Long Island Import Export Association

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The global context: Three big themes

<table>
<thead>
<tr>
<th>Geopolitical shifts</th>
<th>More fragmentation</th>
<th>Tech as a disruptive force</th>
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<tbody>
<tr>
<td>• A major geopolitical inflection point</td>
<td>• Trade, financial architecture, standards, technology</td>
<td>• Many of these themes coalesce around technology</td>
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<td>• Big shifts in the geopolitical and institutional order</td>
<td>• China now writing more rules of the game</td>
<td>• Tech now a national security concern (beyond cyber)</td>
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<td>• Pax Americana is over. But not clear what comes next</td>
<td>• Higher costs, more complexity – harder to be global</td>
<td>• Toward a new technology cold war?</td>
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<td>• Not new to 2018. But leaders now accelerating change</td>
<td>• Multilateral institutions will lose influence, be less global</td>
<td>• Longer-term, tech will force changes in the social contract</td>
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<td>• Lack of global leadership = more crises, less resilience</td>
<td>• Institutional fragmentation along regional lines</td>
<td>• Multinationals must take on new roles and responsibilities</td>
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Trade tensions come as the broader US-China relationship deteriorates

• It’s not just trade – US-China relations are getting worse across a wide range of issues

• Trust on both sides is at a low

• The “hawkish” turn on China is not driven just (or even mostly) by the Trump administration

• Increasing bipartisan view in Washington: China poses a strategic threat to the US

• Splits within Trump administration on engagement versus punitive approach
A truce in the trade wars

- A deal between the US and China on trade looks imminent and may be announced in March or April.

- Talks already have been extended past the March 1 deadline, with new tariffs on hold.

- China will purchase more US goods, especially in agriculture, and will make commitments around IP and subsidies.

- Implementation risks are important: Enforcement mechanism is sticking point.

Source: USITC
Structural issues are at the core of the US-China trade dispute

China’s economic reach grows
Largest trading partner by total trade value

1997

Today

Source: UN Comtrade
5G is the first big battleground of the coming technology cold war

- 5G is a breakthrough in innovation and is at the center of a fierce political fight

- As the US-China tensions rise, every issue around 5G is politicized:
  - Standards-setting
  - Spectrum allocation
  - Which companies in which countries will build infrastructure and handsets
  - Locations of supply chains
  - Cyber threats

Source: Eurasia Group
Europe may be the next front in the trade wars

- USTR goals for trade talks will be problematic for the EU

- The most contentious issues include:
  ✓ Cross-border data flows and European privacy regulations
  ✓ Asymmetric demands on government procurement
  ✓ Rules of origin that favor US location
  ✓ Above all, tariff and non-tariff barriers in agriculture

Source: US Census Bureau
Auto tariffs remain a risk

- Trump will continue to threaten Section 232 tariffs on EU auto imports
- Auto tariffs now linked to agriculture access, creating risk that talks collapse
- By raising production costs, new NAFTA creates incentives for higher external tariffs
- Industry is opposed, but have had limited ability to sway the administration’s agenda
- Real risk of tariffs on the EU, but likely remains a threat in 2019 as US-EU talks continue

Estimated impact of a 25% tariff on imported autos and parts (1-3 years)

- Price tag of an imported $30,000 car would increase by $6,400
- Three jobs lost for every job gained in the auto sector; net 157,000 job loss
- $18 billion loss in GDP, nearly 2% decline in annual exports
- 1.5% decline in auto production; rising to 4% with in-kind retaliation

Source: Trade Partnership Worldwide
Facing the challenges of fragmentation

• What’s the right footprint for this new reality?
• What’s the right supply chain?
• How to fit with future trade and financial architecture?
• How to navigate the US-China relationship?
• What are standards and values in a fragmented world?
For more information, write to egx@eurasiagroup.net