

The Shifting Sands of Global Trade

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Faced with all this discussion of “de-risking” versus “decoupling,” the [CHIPS Act](https://www.commerce.gov/news/press-releases/2023/02/biden-harris-administration-launches-first-chips-america-funding) (see, <https://www.commerce.gov/news/press-releases/2023/02/biden-harris-administration-launches-first-chips-america-funding>), economic turmoil in China, and the global impact of the Ukraine War, mixed with Administration victory laps over trade “deals” with Taiwan and the Atlantic Declaration, it is no wonder it seems like the trade world that SMEs and MMEs could count on is a mess. Perhaps a bit of unravelling and highlighting some of the more important developments would be helpful.

The U.S. Position on Trade?

The current Administration’s position on trade is to do very little beyond vacuous trade “frameworks” which carry no substantive trade improvements for the business owner. As a prime example, see the [Indo-Pacific Economic Framework for Prosperity \(IPEF\)](https://ustr.gov/trade-agreements/agreements-under-negotiation/indo-pacific-economic-framework-prosperity-ipef) <https://ustr.gov/trade-agreements/agreements-under-negotiation/indo-pacific-economic-framework-prosperity-ipef> .

“Globalization” versus Bringing Manufacturing Back Home?

Both the Covid pandemic and the Ukraine War have underscored the necessity of moving our supply chains back into the United States, or at least closer to our own borders. The question at Davos this year was whether globalization, as we know it, is dead. The answer seems to be that while not dead, it certainly is slowing down and under considerable pressure. Where once the cost of doing business drove investment decisions, firms must now consider geopolitical and national security factors that increasingly drive governments’ policymaking.

<https://www.wsj.com/articles/globalization-changing-markets-trade-11673627929> .

“Shifting” out of China

The two events referenced above (Covid & the Ukraine War) combined with rising labor costs in China as well as new National Security and Anti-Espionage laws have resulted in significant departures of foreign operations. The new Anti-Espionage law is ambiguous on what fits China’s definition of national security secrets, and Beijing’s view could well include information that companies use as a normal part of their business. This ambiguity combined with raids on offices of foreign companies in China has further accelerated their departure.

As a consequence of all of the above, we now see a [noticeable downturn](https://www.wsj.com/articles/chinas-tightening-grip-on-foreign-firms-risks-hitting-investment-93389517) in China’s economy which the Party leadership is having considerable difficulty hiding.

<https://www.wsj.com/articles/chinas-tightening-grip-on-foreign-firms-risks-hitting-investment-93389517> .

That downturn is such that the government now admits an [unemployment rate](https://www.wsj.com/articles/china-youth-unemployment-xi-jobs-522028c5?mod=hp_lead_pos7) over 20% (With some estimates over 46%) among China’s young and recent graduates.

https://www.wsj.com/articles/china-youth-unemployment-xi-jobs-522028c5?mod=hp_lead_pos7 .

Unemployment numbers at these levels do not bode well for future economic development, workforce maintenance, and social stability. This is why, for instance, that we see a flurry of

economic or commercial-related activity by Chinese officials meeting with their counterparts in the U.S., like Secretaries Yellen and Raimondo.

The Party leadership in China is focused on relieving the economic stress on the country imposed by tariffs, sanctions, and export controls. Yet, on the military side, there is no interest on the part of the senior PLA leadership to engage with senior U.S. Defense officials. The war of silence on the military side is being used to add pressure on the economic side.

Critical Trade Developments

- Mexico and Canada have both just supplanted China as the top 2 trading partners of the U.S. China has held the #1 position consistently since 2014 when it supplanted Canada, Now, China has fallen to the #3 position after the 1st 4 months of 2023.
- On July 16, 2023, the current version of the TTP, the **Comprehensive and Progressive Transpacific Trade Partnership** formally admitted the UK to this (formerly Regional) global trade powerhouse. <https://www.bbc.com/news/explainers-55858490> . If you recall, the U.S. formally withdrew from the original TTP negotiations following the 2016 Presidential elections with both Presidential candidates pushing to get out. The separate **applications of the China and Taiwan** are to be considered next. <https://www.taipeitimes.com/News/taiwan/archives/2023/07/16/2003803258> and, <https://crsreports.congress.gov/product/pdf/IN/IN11760>
- With its FTA negotiations with the U.S. blocked by the current Administration, the UK has resorted to negotiating a series of **trade MOU's** with various states. <https://hansard.parliament.uk/commons/2023-06-29/debates/D83F840A-D8F5-4C16-A558-2EAAACADB7A1/MarketAccessToUS> and <https://www.gov.uk/government/news/trade-minister-in-us-to-sign-fourth-trade-pact-with-a-us-state>.
- As of this writing, the UK has formally signed trade MOUs with 4 states: **Indiana, North Carolina, South Carolina and Oklahoma**. Negotiations are also formally underway for trade MOUs with California and South Dakota.
- Over strenuous opposition from China, the **USTR announced a “first step” trade initiative has just been reached with Taiwan** on June 1, 2023. This new trade arrangement, “**U.S. Taiwan Initiative on 21st Century Trade**,” is another modest trade “framework” with the stated intent that further enhancements of the trade relationship will be forthcoming in future agreements. <https://www.reuters.com/business/us-taiwan-reach-deal-first-part-21st-century-trade-pact-ustr-2023-05-18/>
- In early June of this year, the White House announced another trade framework entitled, “**The Atlantic Declaration: A framework for a Twenty-First Century U.S.-U.K. Economic Partnership**.” <https://www.whitehouse.gov/briefing-room/statements-releases/2023/06/08/the-atlantic-declaration-a-framework-for-a-twenty-first-century-u-s-uk-economic-partnership/#:~:text=Today%2C%20we%20are%20announcing%20the,chains%20and%20reduce%20strategic%20dependencies>. The Atlantic Declaration is intended to serve as a framework for bolstering cooperation on clean energy transition, AI and national security.
- While generally related to the “The Atlantic Declaration” above, the White House announced earlier in May of this year an intend to designate both **Australia and the**

UK as “domestic sources” under Title III of the Defense Production Act. This would permit the U.S. government to invest and issue grants to firms in those 2 countries in the defense manufacturing sector. Currently, only Canadian firms enjoy this privilege. <https://www.federaltimes.com/federal-oversight/2023/05/25/biden-seeks-legislation-to-invest-in-australia-uk-defense-industries/>

‘Decoupling’ From China Became ‘De-risking’

It is basically diplo-speak. The word has suddenly become popular among officials trying to loosen China’s grip on global supply chains but not cut ties entirely.

The world’s largest democratic economies are now focusing on “de-risking”, not “decoupling.” The former is meant to sound more moderate, more surgical. The reality is if a careful risk analysis is undertaken having to do with continued business ties with China, the odds on favorite is that a decision to move, or “decouple” is in the offing. <https://www.nytimes.com/2023/05/20/world/decoupling-china-de-risking.html> . Chinese state media, officials and academics have all publicly rejected the distinction in recent weeks, in a seemingly concerted effort to undermine the rhetorical shift.