



Global Macro Research

14 June 2024

6:29 minute read

#US

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#Geopolitics

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#Industrial policy

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Derisking, industrial policy, and national security: How might Trump change globalisation?

"Globalisation 3.0" is moving towards supply chain derisking and supporting domestic manufacturing, to boost national security. The current US strategy combines incentives for domestic production and working with economic allies to build a network of trade and supply chain resilience. Even if this changes following the US election, other countries have their own reasons for pursuing derisking.

Key Takeaways

- The broad political consensus around globalisation has turned away from a liberal vision characterised by free trade and open markets, and towards interventionist industrial policy. This is focused on the merging of trade and national security objectives, including prioritising access to key raw materials, ensuring supply chains run through allied countries, and investment in green infrastructure.
- For example, President Joe Biden has responded to growing economic competition with China by attempting to stimulate US manufacturing in strategic sectors, creating coalitions to reduce supply chain dependencies on China, and barring the use of sensitive technologies by Chinese companies.
- While the first part of this approach has at times been controversial with US allies, many are now starting to take a similar approach to industrial strategy.
- An important risk should Donald Trump be elected is that international consensus on supply chain derisking could fracture because the US might walk away from multilateral intervention and return to a unilateral tariff-based approach.
- But, regardless of the US election outcome, geopolitical and economic competition over critical minerals, semiconductors, green energy production, and resource dependencies, is likely to accelerate.

The marriage of supply chains and national security

In April 2023, US National Security Adviser Jake Sullivan gave a [speech](#) in which he said that "*ignoring economic dependencies that had built up over the decades of liberalization had become really perilous – from energy uncertainty in Europe to supply chain vulnerabilities in medical equipment, semiconductors, and critical minerals*".

That a national security adviser gave a speech about supply chains at all demonstrates how closely linked questions of economic and foreign policy have become in the minds of US policymakers.

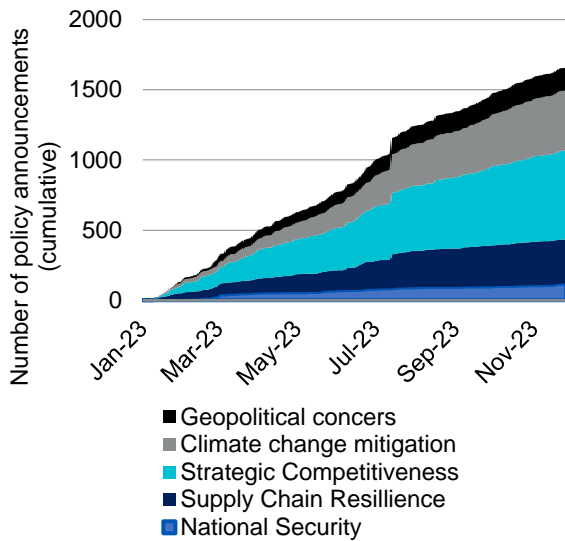
Indeed, President Joe Biden's policy agenda has been characterised by major investment incentives to reinvigorate the domestic manufacturing base in sectors of strategic importance. And his foreign policy focus has been to rebuild international coalitions to reduce supply chain dependencies on China.

These measures have started a domino effect. Policymakers in other developed countries have gone from largely seeing interventionist industrial policy as wasteful and inefficient, to playing catch-up to the US to retain their own market competitiveness (see Figure 1).

The widespread embrace of industrial policy is symptomatic of the stall in globalisation identified in our globalisation index. Decades of deepening global trade integration have ground to a halt, and the risk of a reversal in these trends is building as the policy environment becomes more interventionist and hostile.



Figure 1: Globally, policy measures which cite motivations related to supply chains, decarbonisation and national security are increasing over time



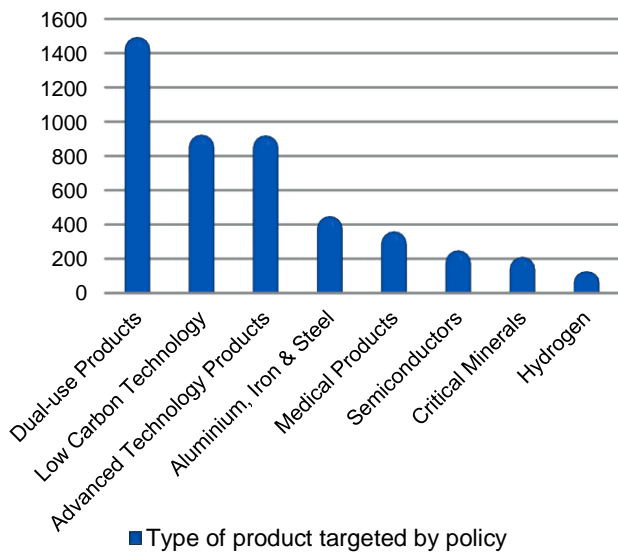
Source: Global Trade Alert, abrdrn, June 2024

Biden’s domestic stimulus measures have had a ripple effect on global industrial policy

Biden took advantage of two years of unified Democrat control of Congress to pass three major pieces of legislation: the \$1tn Infrastructure Act, the \$280bn CHIPS Act, and the \$370bn (at the time of passage) Inflation Reduction Act (IRA).

All three were aimed at stimulating growth and employment, reducing US dependency on its economic rivals, particularly China, and facilitating the green energy transition.

Figure 2: Modern industrial policy is tilted towards strategically important sectors



Source: Global Trade Alert, abrdrn, June 2024

Meanwhile, he has advocated for a “small yard, high fence” trade strategy focusing principally on medical products,

critical minerals, semiconductors, batteries and more recently AI, steel, aluminium and electric vehicles. Globally, there is broadly a consensus in prioritising these products. Industrial policy announcements over 2023 broadly target these technologies, with a particular emphasis on low-carbon and advanced technologies (see Figure 2).

Some aspects of this agenda have been controversial with US allies. The IRA has a clear nearshoring component, extending electric vehicle tax credits to cars predominately manufactured in the US, Mexico or Canada. These restrictions were treated with hostility by the EU, who saw these measures as protectionist.

However, many US allies have taken an “if you can’t beat them, join them” approach. Since the passage of the IRA:

- The EU developed the Green Deal Industrial Plan, a €250bn package to boost the competitiveness of domestic green industrial projects.
- Canada announced an \$80bn package of tax credits to incentivise investment in green energy.
- France has proposed legislation it estimates would provide €500m a year in subsidies for green infrastructure.
- The UK and EU have announced subsidy plans to support domestic semiconductor production.
- Japan has proposed a Green Transformation Act that would see the government issue \$150bn in bonds to fund an initial wave of investment, with the aim of attracting additional private capital. The country’s government has also announced intention to set joint standards for subsidies with the EU and US and has launched a revised semiconductor strategy.

US supply chain derisking has so far relied on allies

There is however a tension in Biden’s trade and industrial policy that risks undermining its effectiveness in the long term.

On the one hand, Biden has sought to maximise the impact of supply chain realignment and derisking by pushing allies to adopt similar policies.

For example, the US has aimed to secure consensus across the G7 nations on issues like reducing critical dependencies on China and coordinating export controls. Under a new partnership scheme, the G7 would offer aid to low- and middle-income countries so they can play a bigger role in supply chains for energy-related products, such as by refining minerals and processing manufacturing parts. And the Indo-Pacific Economic Framework aims to deepen economic partnerships across the region.

On the other hand, the US sees these national security needs as an opportunity to boost domestic manufacturing in high value-added sectors and green infrastructure, often at the expense of its allies.



The viability of global friendshoring efforts will depend on the outcome of the US election

A possible second Trump presidency is likely to be less interested in using multilateral institutions to achieve US economic and political objectives. Trump is primarily concerned with overall trade flows rather than specific products. He would likely use tariffs as the main tool to effect trade, but this limits scope for international coordination around supply chain realignment.

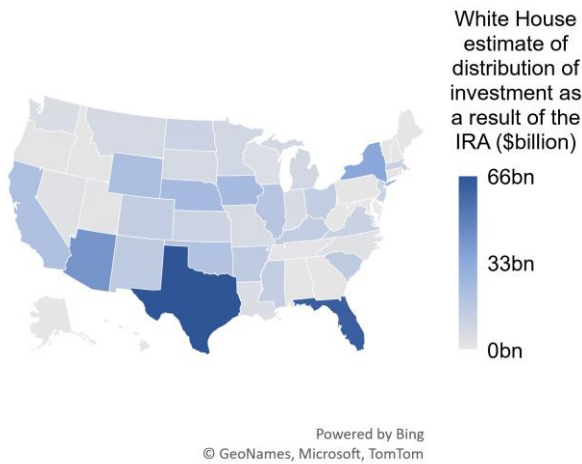
That said, significant tariffs on Chinese goods may have the effect of accelerating supply chain realignment anyway, as companies look to relocate to less geopolitically exposed locations.

A second Trump administration would likely seek to undo some but not all of Biden's industrial policy

While the Infrastructure Act and CHIPS Act garnered bipartisan support, Republicans have consistently opposed the IRA due to its scale and focus on renewable energy.

However, Trump is unlikely to curtail the IRA in its entirety. Republican states have been key beneficiaries of early investment catalysed by the legislation (see Figure 3). White House estimates show that Republican voting states are set to attract \$337bn in green infrastructure investments by the end of the decade.

Figure 3: White House estimates show Republican-leaning states are key beneficiaries of IRA funding



Source: US Treasury, abrdn, November 2023

But Trump may cap some of the tax credits, and cut or abolish subsidies available to electric vehicles, having argued their production aids China at the expense of US auto producers.

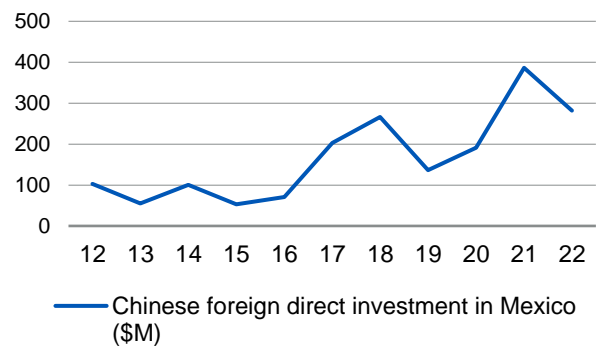
Trump would place a greater emphasis on reshoring over nearshoring

Policy proposals made by Trump on the campaign trail include a four-year programme to reshore the production of essential goods and medicines with the aim of ending dependencies on China. This, combined with his lack of interest in multilateral institutions, indicate that a second Trump presidency would drop the Biden administration's interest in nearshoring and friendshoring, for outright reshoring.

But costs are likely to be significantly higher than simply limiting future investment in China in favour of less geopolitically exposed nations.

Meanwhile, both Trump and Biden have raised concerns about Chinese FDI into Mexico (see Figure 4). During a second term, either candidate would look to gain greater assurances from economic allies about enhanced investment screening policies to shield against possible Chinese influence.

Figure 4: Chinese FDI in Mexico is attracting attention from US policymakers



Source: abrdn, Haver, April 2024

Supply chain derisking will continue regardless of the US election outcome

Regardless of the US election outcome, the marriage of industrial strategy, supply chain resilience and national security considerations, which is one of the characteristics of Globalisation 3.0, will remain.

Indeed, countries beyond the US have a deep interest in this agenda. The EU, having suffered from an overreliance on Russian energy before the invasion of Ukraine, is focused on boosting domestic green energy production and ending dependencies on single sources of strategic resources.

Japan, meanwhile, has moved to a more hawkish position on China in recent years, and is particularly focused on reinvigorating its formerly significant semiconductor manufacturing sector.

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