International Trade and Policy

WEEK 13 – **The New Protectionism: Supply Chains and Trade Fragmentation**

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Agenda

- Understanding the Old vs. New Protectionism
- Supply Chains Under Pressure
- Trade Fragmentation: Drivers and Data
- Export Controls as Geopolitical Tools
- Building Supply Chain Resilience
- Future Outlook & Strategic Recommendations

Section 1 – Setting the Stage
What Is Protectionism? (Traditional View)

- Tariffs, quotas, subsidies
- **Aim**: Protect domestic industries from foreign competition
- **Classic example**: Smoot-Hawley Tariff (1930)

The “New Protectionism” – A Definition

- Non-tariff barriers
- National security arguments for trade restrictions
- Industrial policy and technology decoupling
- Example: US CHIPS Act, EU Net-Zero Industry Act

Why Now? Key Drivers

- US–China strategic competition
- COVID-19 supply shocks
- Russia–Ukraine war and weaponization of trade
- Climate and energy transitions

From Globalization to Fragmentation

- Visual: One global circle → three blocs (US-led, China-led, neutral)
- Definition: Reverse globalization
- WTO trade growth below GDP growth since 2019

What’s at Stake?

- IMF estimate: 0.2%–7% of global GDP loss
- Higher inflation, less product variety
- Geopolitical instability

Section 2 – Supply Chains Under Stress
Slide 8: The Golden Era of Supply Chains (1990–2010)

- Just-in-time (JIT) logic
- Low labor cost arbitrage (China as the factory of the world)
- Minimal inventory, maximum efficiency

The First Cracks (2018–2019)

- US–China trade war tariffs
- Huawei ban and early tech decoupling
- Companies begin “China + 1” strategies

COVID-19 – The Great Reveal

- Medical supply shortages (PPE, ventilators, APIs)
- Container shipping chaos and port congestion
- Just-in-time becomes just-too-late

Geopolitical Shocks (2022–2024)

- Russia–Ukraine: grain, energy, neon gas (semiconductors)
- Red Sea / Suez Canal disruptions
- Taiwan invasion concerns: semiconductor panic

Visual – Supply Chain Concentration Risk

- Map showing over 70% of semiconductors are made in Taiwan / South Korea
- 80% of rare earth refining in China
- High-risk nodes highlighted in red

The Cost of Disruption

- Average supply chain disruption cost: $80M+ per event (McKinsey)
- Share prices drop 7–10% post-disclosure
- Inventory write-offs and expediting fees

From JIT to JIC (Just-in-Case)

- Building inventory buffers
- Dual sourcing and nearshoring
- Strategic stockpiles (e.g., EU medical reserves)

Section 3 – Trade Fragmentation: Evidence & Trends
Defining Trade Fragmentation

- Splitting of global trade into rival regional blocs
- Trade diversion vs. trade creation
- Visual: Three blocs with internal preferences

Measuring Fragmentation

- WTO: Global trade growth 2.4% (2023) vs. 5% historical average
- Number of discriminatory trade measures tripled since 2010
- Regional trade agreements up, WTO dispute settlement down

Bloc 1 – The US-Led Network

- USMCA (North America)
- IPEF (Indo-Pacific Economic Framework)
- EU–US Trade and Technology Council (TTC)
- Friend-shoring: trusted partners only

Bloc 2 – The China-Led Network

- RCEP (Regional Comprehensive Economic Partnership)
- BRI (Belt and Road Initiative)
- Bilateral deals with Russia, Iran, Global South
- RMB settlement to bypass SWIFT

Bloc 3 – The Neutral / Aligned Middle

- India, Brazil, Turkey, Vietnam, Indonesia
- Trade with both blocs, but facing pressure
- Benefit from investment diversion (factory relocation)

Sectoral Deep Dive – Critical Minerals

- China controls 60–90% of refining for lithium, cobalt, graphite
- Export controls on gallium, germanium (Aug 2023)
- Western response: mineral security partnerships (Canada, Australia, Africa)

Section 4 – Export Controls: The New Frontier
What Are Export Controls?

- Restrictions on selling goods, software, technology to certain countries
- Dual-use items: civilian + military applications
- Old regime: Wassenaar Arrangement (post-Cold War)

Why Export Controls Now?

- To slow rival military/AI advancements
- To protect “foundational technologies”
- To enforce foreign policy and human rights

Case Study – US Semiconductor Controls (Oct 2022, Oct 2023)

- Advanced chips, chipmaking equipment, supercomputers banned to China
- Foreign Direct Product Rule: applies even if US content is minimal
- Also targets Huawei, SMIC, Yangtze

Allied Coordination

- Netherlands (ASML): DUV lithography export licenses required
- Japan (Tokyo Electron, Nikon): similar restrictions
- South Korea, Taiwan: pressured but cautious

China’s Response

- Export controls on gallium, germanium, graphite
- Ban on rare earth tech exports
- Accelerated R&D in domestic chips (Loongson, SMIC 5nm?)

Unintended Consequences

- Choking innovation: fewer cross-border researchers
- Smuggling and third-party transshipments (Turkey, UAE, Mexico)
- WTO legal challenges (limited effect)

Beyond Semiconductors – Next Targets

- AI models and algorithms (open vs. closed weights debate)
- Quantum computing
- Biotech synthesis tools
- Drones and autonomous weapons components

Section 5 – Building Supply Chain Resilience
What Is Supply Chain Resilience?

- Ability to anticipate, withstand, recover from disruptions
- Not 100% self-sufficiency (impossible)
- Trade-off: resilience costs 2–5% more than pure efficiency

Resilience Strategy 1 – Diversification

- China + 1 → China + Vietnam / Mexico / India
- Multiple suppliers for critical components
- Avoid single points of failure

Resilience Strategy 2 – Nearshoring & Friend-shoring

- Nearshoring: Mexico for US, Eastern Europe for EU
- Friend-shoring: only democratic / trusted nations
- Example: Tesla Gigafactory Mexico, Intel in Germany

Resilience Strategy 3 – Inventory Buffers

- Return of safety stock (JIC)
- Strategic reserves: medical, energy, critical minerals
- Digital twins to optimize buffer locations

Resilience Strategy 4 – Visibility & Digitalization

- End-to-end supply chain mapping
- AI-powered disruption early warning
- Blockchain for provenance and compliance

Resilience Strategy 5 – Redundancy

- Multiple production lines across geographies
- Surge capacity contracts
- Example: automobile chips – dual sourcing now mandatory

Role of Government Policy

- Subsidies: CHIPS Act, EU Chips Act
- Tariffs on non-resilient sources
- National resilience strategies (Japan, Korea, Germany)

Cost of Resilience – Industry Survey

- 85% of large firms increasing resilience spending
- Average: 4% of procurement budget
- Accepting 10–15% higher unit costs for strategic goods

Section 6 – Future Outlook & Conclusions
Three Future Scenarios (2030)

1. **Contested Globalization** (current trend continues)
2. **Decoupled Blocs** (two separate tech universes)
3. **Renaissance of Multilateralism** (unlikely but possible)

What Will Likely Happen?

- Persistent high tariffs on strategic sectors
- Dual supply chains (one for West, one for rest)
- No full decoupling – too costly
- Trade continues, but with “guardrails”

Risks Ahead

- Taiwan conflict → semiconductor stop
- Energy price spikes from Middle East escalation
- Overregulation stifling innovation
- Exclusion of Global South deepening inequality

Strategic Recommendations for Companies

- Map your multi-tier supply chain (Tier 1 to Tier 4)
- Build scenario playbooks (escalation to decoupling)
- Invest in dual sourcing and regional hubs
- Lobby for phased-in resilience mandates

Strategic Recommendations for Policymakers

- Avoid indiscriminate decoupling
- Maintain allied coordination to avoid leakage
- Create resilience credits not just tariffs
- Keep WTO as a floor, not a ceiling

Key takeaway:

- The new protectionism uses national security tools like export controls and subsidies, not just tariffs.
- Supply chains have permanently shifted from just-in-time efficiency to just-in-case resilience.
- Trade fragmentation is splitting the world into US-led, China-led, and neutral blocs.
- Export controls on semiconductors and critical minerals are now the primary geopolitical weapon.
- Resilience requires diversification, nearshoring, inventory buffers, visibility, and redundancy.
- Full decoupling is unlikely, but contested globalization with permanent guardrails is here to stay.

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Thank you!