

# The New Geopolitics: Impacts on International Trade



Dr. Janpeter Horn, Herzog  
(Ulrich Ackermann, Head of Foreign Trade, VDMA)  
5<sup>th</sup> Joint Convention Eurocord & Cordage Institute  
Vienna, June 13<sup>th</sup>, 2022

A vertical photograph on the left side of the slide shows a single water droplet suspended in mid-air above a surface of water. The droplet is perfectly spherical and reflects light. Below it, a series of concentric ripples spread outwards on the water's surface. The background is a soft, out-of-focus blue.

# The New Geopolitics: Impacts on Mechanical Engineering

Ulrich Ackermann  
Head of Foreign Trade  
WebCon Main Board  
April, 26th 2022



Bild: Erich Westendarp / pixelio.de

## Globalisation in the „good old days“



- » **General consensus: All countries benefit from free trade**
- » **Ongoing liberalisation of world trade**
- » **Free trade does not have a negative connotation in the public**
- » **Enforcement of the WTO rules system**
- » **Trade policy something for "experts"**



## Globalisation under pressure



- » Increasing trade barriers (in mechanical engineering) worldwide
- » Brexit creates trade barriers in the middle of Europe
- » Lasting crisis of the World Trade Organisation WTO
- » Geostrategic conflict USA-China
- » Re-emergence of Trump's protectionism in 2024?

# Russia's farewell to the world order

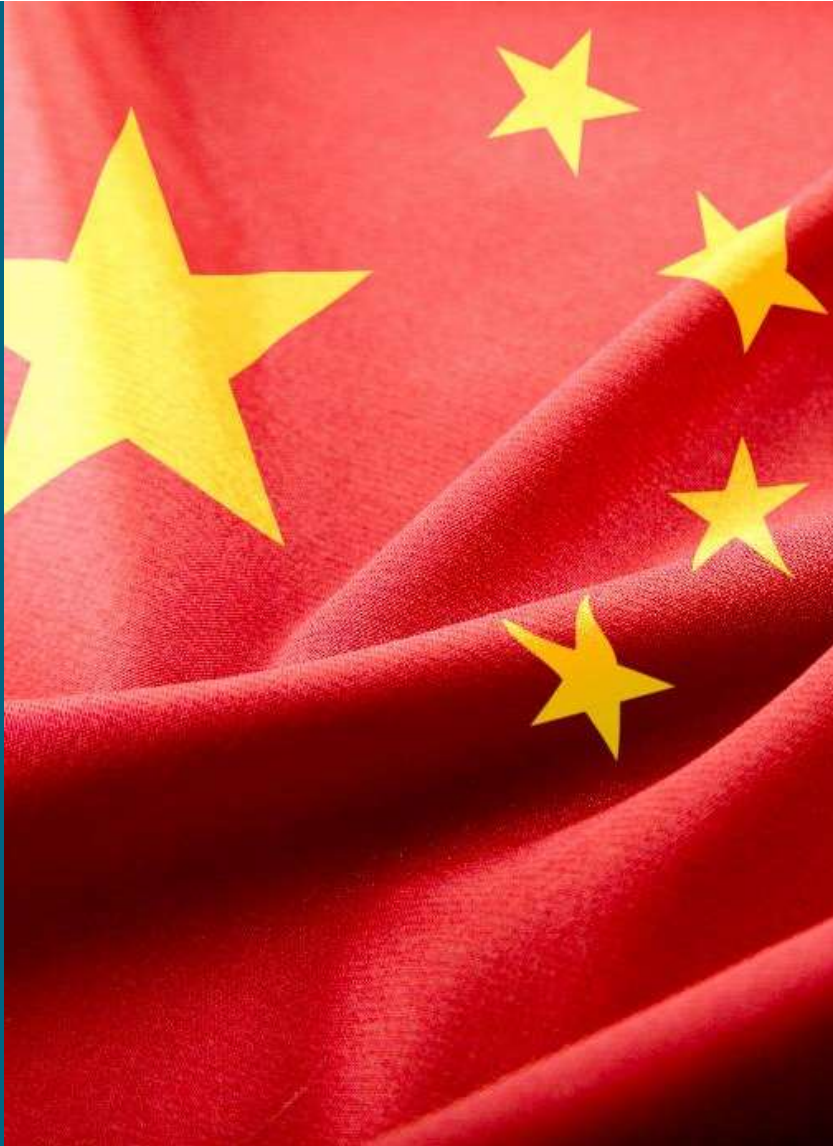


## Current

- » Transformation from raw material supplier to technology producer failed ("import substitution" model)
- » Weak economic growth since 2013
- » Per capita income at the level of Costa Rica and the Seychelles
- » Putin's great power ambitions known since 2014 at the latest (Crimean annexation, attempted annexation of Donetsk/Lugansk)
- » Ukraine war will last longer
- » Sanctions will remain, even after a possible ceasefire, because Putin must not emerge as winner from this war

## Perspectives

- » Russia remains supplier of raw materials and thus an "economic dwarf" with nuclear weapons
- » Russia will sell raw materials to Asia in the medium and long term
- » Russia's dependence on China will grow
- » *Business with Russia has come more or less to a standstill and will continue to be on a very low level*



## China aims for autonomy



### "Made in China 2025" strategy and 14th Five-Year Plan call for technological self-sufficiency and secure supply chain

#### Objectives:

- » Central role China's in global industrial and supply chains.
- » "Bottleneck technologies": reducing dependencies
- » "Trumpfkarten" ("Bargaining chip-technologies": building foreign dependencies
- » *(European and US-companies start to realize dependencies and react (?))*

## China aims for autonomy

### Market share targets for Chinese companies by 2025:

- » 70% equipment for intelligent manufacturing
- » 70% of components for manufacturing
- » 50% of industrial software

### Examples of key technologies

- » Sensors
- » Robotics
- » Tooling machines
- » Drive technology/fluid technology
- » Controls
- » Materials-handling technology
- » Special machines (e.g. production of semiconductors, composite materials, pharmaceuticals)



## Geopolitical challenges for China



- » Positioning on Russia
- » Taiwan question
- » Conflicts in the South China Sea
- » Territorial conflict with India
- » *Non-Covid-strategy failed*
- » Worldwide image loss





## USA rely on "nationalist approach"



- » Regaining global leadership
- » Reduction of (technological) dependencies
- » Domestic political pressure (rebirth of the "American Dream")



## Biden's trade policy



- » Trade as a means to higher goals
- » Act multilaterally when in own interest
- » "Labour-focused" trade policy
- » No new trade agreements possible (TPA expired)
- » "Buy American" expanded
- » "China Crusade" continues

## "Buy American" - public tenders in the USA

### Tenders by US authorities

- » New rule comes into effect as of October 25<sup>th</sup>, 2022
- » "Local content" requirement for capital goods to rise gradually from 55 per cent to 75 per cent
- » WTO Government Procurement Agreement (GPA) covers many tenders
- » Exceptions possible

### Tenders by states, cities and municipalities (with federal funding)

- » New rule takes effect as of May 14<sup>th</sup>, 2022
- » Capital goods must be made in the US, with 55 per cent "local content"
- » WTO GPA covers only a few tenders
- » Exceptions possible



## „ China Crusade" continues



### Biden - Continuation of the Trump course

- » Tariffs from 2018 remain in place, *apart from some to battle inflation*
- » More and more Chinese companies sanctioned
- » "Decoupling" USA-China

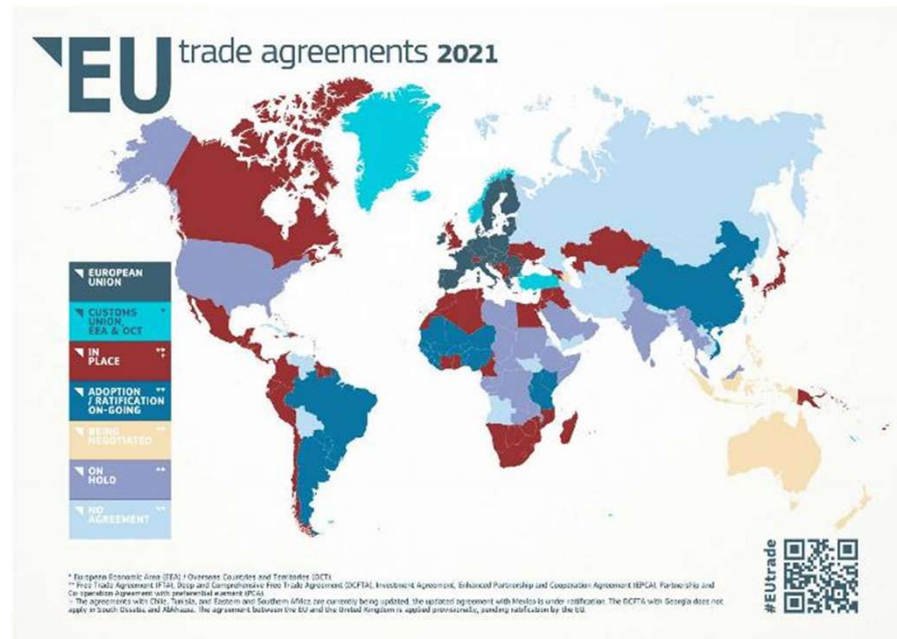
### Industrial policy in US Congress

- » USICA (U.S. Innovation and Competition Act)
  - 250 billion USD to be invested in "critical industries"
  - 52 billion USD in semiconductor manufacturing
- » Response to "Made in China 2025"
- » Passed in Senate (68-32)

## EU in search of its role and position



# EU Trade Agreements 2021



## Understanding of trade changing?

- » Change through trade (Wandel durch Handel) vs. value based trade?



## New EU strategy of "open strategic autonomy"



### Proposal by the EU Commission

- » Diversify import sources and make them more sustainable
- » Capacity building in "strategic areas"
  - Investing in research and innovation
  - With the help of IPCEI - Important Projects of Common European Interest
- » Introducing protection instruments for the EU internal market

## What kind of EU trade policy for the new geopolitics?

### **Diversifying import structures**

- » Public vs. private approach

### **Expansion of capacities in "strategic areas"**

- » Competition policy vs. industrial policy

### **EU promotes global and bilateral open markets**

- » Bilateral trade agreements vs. "values agreements"

### **Strengthening the protection mechanisms for the EU internal market**

- » International Procurement Instrument (IPI), Subsidy Instrument, Anti-Coercion Instrument vs. Supply Chain Act, CO2 Border Adjustment, Tightening of Investment Test





**Thesis: The world is heading  
for a new bipolar world order**

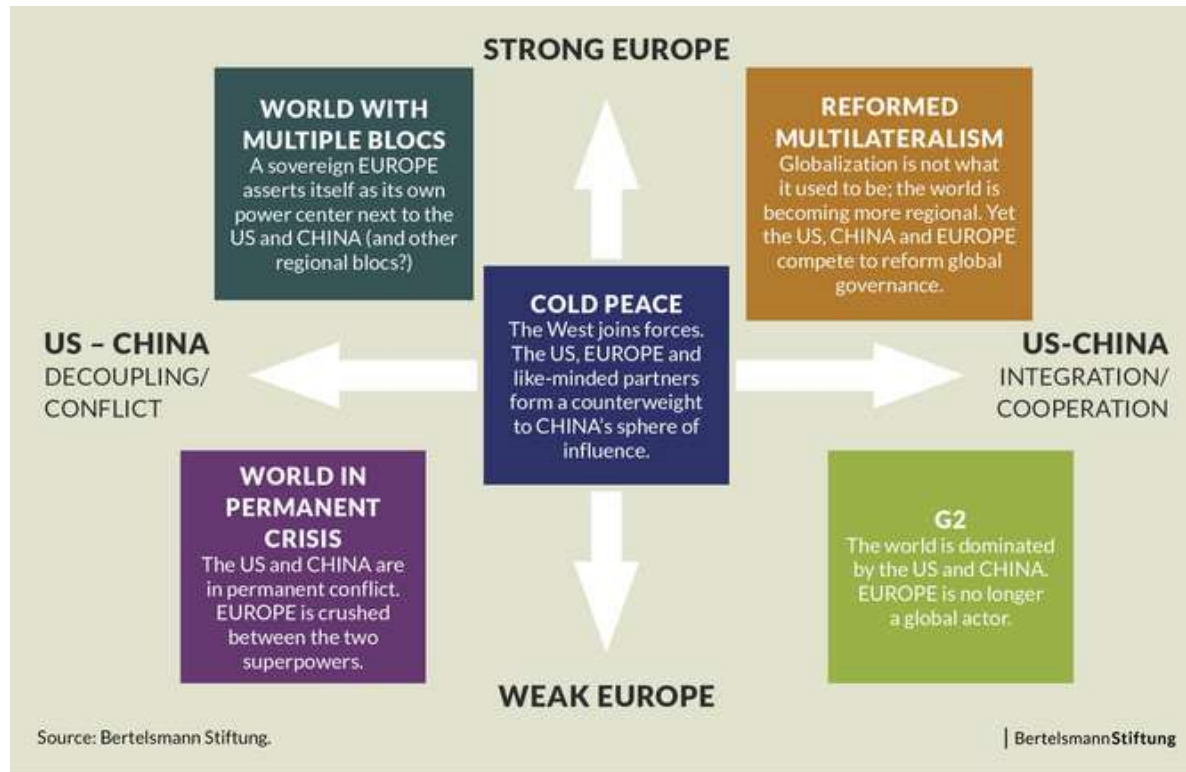


**EU will not become a military and  
political power**

**Geopolitical conflict USA vs. China**

- » Russia as China's weakened partner
- » India caught in the dilemma between  
Russia and the USA
- » South America plays no role
- » EU finds itself in an uncomfortable "pincer  
position"

# Scenario "World in permanent crisis" from Bertelsmann study\*



The USA and China are permanently in conflict. Europe is crushed between the great powers.

\*„Globalization Scenarios – Challenges and responses from the perspective of German business “



## What does the scenario mean for international politics?



- » Multilateral system disintegrates
- » Friend-foe camp thinking returns
- » All countries wrestle over bilateral or regional free trade agreements

## What does the scenario mean for the three blocs China, USA, Europe?



Opponent is USA  
Aggressive "My Country first" policy  
Struggle for dominance in standards  
Conflicts over raw materials from third countries



Opponent is China  
Aggressive "My Country first" policy  
Struggle for dominance in standards  
Conflicts over raw materials from third countries



Politically weak  
Without a coherent foreign economic policy  
Standard taker  
Dependency on raw materials



## What does the scenario mean for Europe?



- » EU stuck in complex dependency relationships with China and the USA, European companies have to "manoeuvre" between China and the USA
- » EU domestic market remains main sales market, global exports and subcontracting become more complicated and cost-intensive
- » Hardly any international development cooperation, threat of migration of European talent to the USA and China

## Outlook for Europe, especially Germany?



- » *Awareness in Europe (Germany) regarding dependencies grows (supply change disruptions, inflation)*
- » *Europe's (Germany's) business model is based on free and international trade, especially exports*
- » *Europe's international importance shrinks, especially if there is not unity amongst its members*
- » *We are not as good and important as we tend to think*
- » *Impoverishment of society and/or increase in transfer*

## *There is hope?!*



- » *US Treasury Secretary Janet Yellen at Atlantic Council/ May 2022: “The world order risks being permanently divided. This outcome is far from desirable, and the US must work with China to prevent it.”*
- » *But in virtually the next breath, Yellen advocated measures that could thwart such a plan:*
- » *The US should deepen its relationship with countries that “adhere strongly to shared norms and values, about how to operate in the world economy and how the global economic system works”. The key to effective cooperation on important issues lies in choosing partners that are “committed to a set of core values and principles”.*

## *There is hope?!*



- » *German Chancellor Olaf Scholz at the World Economic Forum, Davos:*
  - *“ Deglobalisierung ist ein Holzweg.”  
(Deglobalisation is a wrong track.)*
  - *Defending the German business model of an export-oriented economy.*
  - *Promotion of more international cooperation (other than USA).*
  - *Clear commitment to free trade*
- » *However, this is where the hard work begins: more Free Trade Agreements*



# The New Geopolitics: Discussion



Caroline van Beelen



Koen van Goethem

