

Are We Witnessing the End of the Unbridled Globalization Era?



By Eric Bushell, June 22, 2018

After living through a year of confrontational statements from President Trump, I can understand why investors have tuned out from the daily Washington beat. It paid well to consider it all a distraction in 2017. That is no longer the case. With the loss of centrists from positions of power in the White House this Spring, more extreme voices have taken charge; and they are mobilizing policy that reflects their worldview. Trade barriers to satisfy populist electorates are only one dimension of the agenda.

A recent call with a White House insider strengthened our conviction that a profound change is coming. China is being recast as perpetrating economic aggression against America. China's industrial development policy, centered on technological advancement, is being perceived as a direct threat to U.S. economic and military superiority. Throughout 2017, we spoke of China's [Sputnik moment of technological achievement](#) – one that would challenge and provoke the U.S. [Paul Schulte and I discussed the remarkable Chinese achievements in Palm Springs in October](#); the response has emerged.

This week the White House has released a document highlighting the various strategies that China has engaged in to acquire Western technology. The report, provocatively titled “How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World,” amalgamates findings from other studies including the 2017 Semiconductor Vulnerability Report and the 2014 Intellectual Property Commission, and the latest National Defense Strategy.

Based on the latest White House report, we can conclude that the China hawks mean business; the current composition of the National Security Council affirms the intent. The case of the Chinese telecom equipment manufacturer ZTE was the spark that lit the fire. The center of power on the issue has shifted from Commerce and Treasury to Defense and the Office of the U.S. Trade Representative (USTR), with an explicit focus on the security of the U.S. defense industrial base. The concepts of economic security and national security are being merged. Going forward, a whole host of policy will be unveiled to restrict China's acquisition of U.S. technology. Strong bipartisan support for these measures makes their implementation probable.

What are the consequences of this development? The simple conclusion is that globalization is facing a major rift and possibly a break. The positive forces for economies and markets that began with the fall of the Berlin wall may slow or reverse. A new technological cold war will take hold between the world's two dominant economies. This will weaken global growth, force large capacity relocations and substantially increase inefficiency in the global economy. China, the world's factory,

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was built on labor cost advantages, but now that it is transitioning to unmanned factories, capacity can return to Western markets. Populists and military strategists are determined to ensure it does.

During the globalization dash, technological advancement knew no borders; this led to complex integrated supply chains in many industries. Many assumptions underpinning these business arrangements will have to be reconsidered when faced with new economic and security obstacles. Adjustment will be required. In the short term I expect investment paralysis and confusion on the part of corporations. In the long run I expect costlier and capital heavy, localized production bases. Small trading nations could be collateral damage in the process as trade imbalances are forcibly narrowed.

America's allies will be thrust into a tenuous position of having to balance economic relations with China and geopolitical relations with the U.S. In parts of Asia where trade with China dominates, countries may leave the U.S. fold, redrawing the strategic map.

It's too soon to be cocksure, but we are starting to defensively position the portfolios for this possibility.

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