Sapiens – international trade manifesto

« The productionnist era »

Grégoire Verdeaux, March 2025

The start of the second Trump Administration in the U.S. has by itself shaped the perception of a landslide change in global trade, exemplified by the U.S. tariffs announcements.

While they are eminently significant, focusing exclusively on those, as most observers do, seems to us a factual mistake. The U.S. economy represents over a quarter of the world's GDP, but is by no means its sole driver. Tariffs do represent an effective and immediate instrument impacting trade, but global trade today can be substantially and structurally impacted in several different other ways.

Therefore, while we do not intend to minimise the impact of the change brought by the U.S. tariffs decisions (which extent and duration is still unknown), our priority is to also consider more structural factors, some already at play, which reshape the global trade and investment environment at least for the next 3-5 years.

They must be understood with certain elements of context in mind, which we notice are often ignored or understated:

- The adoption of additional controls and conditions by governments over international movements of goods, services and capital is a global phenomenon. Almost all significant economies reinforced them.
- This trend has been boosted during the COVID-19 pandemics, and there was no return to the previous environment after the pandemics ended.
- The effect of Governments' decisions is complex to analyse, as they apply often to supply chains that have turned global for a while. For instance, Germany did not support the imposition of (limited) EU tariffs on Chinese Electric Vehicles (EV), certainly because German companies have invested in EV production in China. U.S. tariffs applied to automotive parts assembled in Mexico are to hurt U.S. automakers which have distributed their supply chain over North and Central America, notably under the USMCA. Etc. In other terms, the idea that a company, a product or a service can be assigned to one determined country is often challenged by reality, as the world economy has relied on the continuous development of global supply chains, particularly during the period 1995-2015.

The central tenet of our view is that the global economy is entering a productionnist era, with Governments strategically reprioritising production at home over the benefits of global supply chains, manifested by a readiness to retain existing investors and attract new ones through a combination of attractive tax and aid regimes on the one hand, and the threat of tariffs and non-tariffs barriers on the other hand. Regulation in that respect becomes an ambivalent tool, simultaneously used to condition or block market entry (e.g. licensing requirements) and to incentivise new investors (e.g. deregulation).

This is why this productionnist approach should not be confused with protectionism, since it can aim at bringing back production where it had ceased to exist (i.e. there is no longer a home production to « protect ») and more importantly it invigorates competition on the domestic market by promising foreign investors a fair chance to compete provided that they produce locally. In other terms, productionnism resolutely turns its back on free-trade, but not on competition.

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4 structural factors to watch for 2025-2030

A. Tariffs.

China, the EU and the U.S. represent together roughly 45% of the world's trade (Japan, South Korea and the UK adding an extra 10%). There is no bilateral trade agreements in place between the three big trade players, tariffs are meant to be set through the World Trade Organisation (WTO).

Tariffs decisions therefore have to be assessed under the light of the near-paralysis of WTO. It has been unable since 2019 to carry its mission to resolve trade disputes, as a result of U.S. obstruction (initiated under the first Trump Administration and pursued since, therefore also under the Biden Administration).

This does not mean that WTO will not remain as one of the usual discussion fora for the evolution of tariffs policies, but it can no longer be reasonably considered as an effective recourse to get its Parties to amend, suspend or recall a tariff decision.

Concretely, some of WTO Parties have decided to maintain a dispute resolution process as a voluntarily commitment, and it is quite telling that a minority of the Parties have opted for this – and few of the « heavy-hitters » in terms of global trade.

We see this voluntary approach as prefiguring the new trade environment: a series of *à la carte* agreements, manifesting the willingness of certain governments to develop privileged ties with others, in a targeted manner in terms of geographies (bilateral, regional agreements) and sectors.

It would therefore be thoroughly inaccurate to look at this evolution as a transition from order to chaos, whereby international businesses would be suddenly exposed to a sort of « law of the jungle ». It is however a shift, which we consider irreversible (also for other reasons, see below), by which disappears the notion of a global marketplace functioning under the guidance and prerogatives of WTO, as national governments get back control. Overall, this shift is consistent with the general collapse of influence of multilateral decision-making observable in many other areas, e.g. financial coordination (G20), climate change (COP), public health (WHO), etc.

As a result, tariffs decisions have to be carefully assessed through the lens of national interest, which provides the single most important rationale companies should consider from now on in their risk management, and historically has been a relatively safe ground for international trade to develop. Of course, this requires a considerable strategic adjustment, as contemporary global trade had been shaped by the U.S. post-war support to the deployment of international frameworks through the (GATT then) WTO.

B. Industrial policies.

Industrial policies sit at the intersection of national interests and competition rules. Under the leadership of Governments, they can amend, complement, guide, direct, interfere etc. with the outcome defined by consumer welfare, (usually) the sole point of reference for the definition of what the optimal market looks like.

In free-market democracies, industrial policy has always been considered as the exception to the rule of competition-driven market regulation, particularly under the general wave of liberalisation across OECD countries since the 1980s, and this has to a degree extended to emerging countries eager to attract Foreign Direct Investments (FDIs) and financial support from multilateral organisations (notably the International Monetary Fund).

However, this trend has gradually reversed, with entire industrial sectors (e.g. automotive, biotech, telecoms) coming back under close oversight from Governments, well beyond the ‘residual’ areas traditionally associated with national security (e.g. aeronautics).

As an example, as the level of FDIs from emerging economies into developed ones grew, so did the implementation of FDIs screening mechanisms across OECD countries. Initiated in Northern America, they are now also enforced everywhere in the EU.

The measures covered by industrial policy form an intricate ensemble bringing together what increases local firms' performance and how they compete with others, and usually encompass:

- Supporting investment, particularly in innovation and R&D, through the allocation of subsidies, guarantees, patient capital, State ownership
- Limiting dependencies to imports
- Boosting export capabilities
- Protecting Intellectual Property
- Ensuring availability of skills in the relevant market
- Shaping market design and competition

Industrial policy is nothing new. The factor to watch for 2025-2030 is the scope Governments will assign to this type of policies, in two different ways:

(a) Sectors : as the enforcement of multilateral rules and commitments collapses, and the external defence of national commercial interests shifts back to unilateral action or bilateral agreements underpinned by the relative bargaining power of each participant rather than a set of rules, Governments will openly prioritise industrial policies to strengthen domestic players and force new ones to produce locally or exit. Which sectors will be concretely prioritised (Government resources are limited) is the real question, and we can expect a surge in lobbying efforts from industries to make it to the top of the industrial policy agenda in each significant economy.

(b) Geographies: strategies of 'friendshoring' are already under way for some time since the U.S. have decided to actively decouple from the Chinese economy. However, even 'friendshoring' is a disputable concept in the new productionnist era. The U.S. have to make known by end 2025 whether they consider the extension of the USMCA trade agreement, and the current tariffs feud can be considered either way (as a concrete strategy for the U.S. to improve its terms, or on the contrary as prefiguring U.S. withdrawal). The EU experiences huge geopolitical tensions with Turkey, which begs the question of the sustainability of its Customs Union within 2025-2030 (particularly in the new Syrian context).

C. License to operate.

Beyond the commercial viability of offering products and services subject to tariffs and other non-tariffs impediments (e.g. import licensing, rules of origin, customs inspection, etc.), a structural issue will be the the need to obtain authorisation to do so.

The most straightforward illustration of this comes from the digital sector, where Chinese companies have seen their license to supply networks or services reduced, suspended or permanently removed based on national security concerns in Northern America and Europe.

However many other requirements can lead to similar outcomes without being specifically directed to certain companies, such as:

- Data management requirements. For instance, the decisions taken by the new U.S. Administration questions the short-term validity of the 2023 EU-U.S. Data Privacy Framework, and therefore the license to operate in the EU of U.S. digital companies.
- Environmental regulation. In that area, the EU stands out with high standards on (for instance) its Carbon Border Adjustment Mechanism or deforestation, likely to complicate access to its market for non-EU products.
- Antitrust. In the 'saga' of the U.S.-China rivalry on the chips sector, nothing illustrates better the weaponisation of antitrust than the anti-monopoly investigation launched in December 2024 by the Chinese SAMR on chipmaker Nvidia. This is a high profile case, but there are many others in which we will see global companies being under antitrust scrutiny from various key competition authorities (e.g. in the U.S., EU, China, UK, Japan, South Korea) subject to non-coordinated views on the same issues.

In sectors identified as priorities from a national interest point of view, we expect license to operate to become dependent on the compliance of evermore elaborate national standards, potentially designed to be incompatible with those of economic rival nations. An additional element of complexity for global companies will be that those standards are not technically elements of trade policy, but outcome of domestic policies and politics (national security, environment, data privacy, public health, etc.), trade restrictions being collateral effects.

D. The role of USD in international trade.

There is growing speculation on what the new U.S. Administration considers as the optimal USD valuation on the international currency market, with a potential for depreciation. The amplitude of U.S. deficits and the uncertainties surrounding their financing via external tariffs rather than fiscal income, added to the impending risks of the current sudden change in economic policy (i.e. inflation and recession via the exposure of U.S. companies to the combined effect of tariffs retaliation, international supply chain disruptions and immigration restrictions): all combine to create doubt on the value and stability of the USD.

In addition, USD use triggers automatic exposure to U.S. sanctions regimes. These regimes have literally proliferated in Western countries, which confronted to multiple geopolitical tensions have been prompt to opt for sanction regimes in lieu of contribution to military operations. The multiplication of these regimes, the extension and sometimes the overlap of their scopes has become a real challenge to navigate for global companies.

It is anyone's guess how U.S. sanctions will evolve, but a reasonable bet is an alleviation of sanctions vis-à-vis Russia and a strengthening of those hitting China: precisely such a scenario would hugely complicate trade for Southern emerging countries which business ties with China are much more developed.

Lastly, it must be recalled that one of the conditions for a continued long-term dominance of the USD in international transactions is for the U.S. to remain in trade deficit (the so-called « Triffin paradox »), which runs contrary to the ambition of the new U.S. Administration. Given the amplitude of this deficit, whether it can actually be effectively addressed by the new U.S. strategy (and when) and the fact that roughly half of the USD in circulation globally are already outside the U.S., there is no present and immediate risk for the USD supply to fail the global economy. However, a significant portion of this USD global circulation likely being held by China (one way or another), the *statu quo* cannot be taken for granted in the event of an escalation between the two countries.

As a result, a last factor to watch is the continued (or discontinued) quasi-monopoly the USD enjoys in international trade. There has been much talk about alternative currency solutions among members and affiliates of the so-called BRICS+, although they have not so far led to concrete initiatives. Activity on the USD derivatives market (e.g. swaps) is recently on the rise, showing a growing concern.

This concern is founded. Our view is that, structurally over the 2025-2030 period, the combination of an aggressive U.S. trade policy with the development of an equally aggressive U.S. sanctions policy (particularly vis-à-vis China) will weaken the position of the USD as the currency of choice for international transactions, notably in the commodities sector where the ties between China and Southern exporting countries are very well developed.

What companies can do

1. Turn around their international representation strategy, which can no longer be only about legal action (vis-à-vis WTO or on the basis of trade agreements), by developing local representation and lobbying efforts and international arbitration resources.
2. Perform a thorough audit of long-term business growth exposure to global external risks (regulation ; tariffs ; competition ; tax ; reputation).
3. Decrease USD dependency in FX risk management.
4. Decrease dependency (supply chain, income) to countries presenting a significant dual trade exposure to the U.S. and China.