CENTRO BRASILEIRO DE RELAÇÕES INTERNACIONAIS

BRAZILIAN CENTER FOR INTERNATIONAL RELATIONS

XVIII China Analysis Group Meeting

May 6, 2020

Online discussion panel via Zoom

Theme: "Asian production chains and technological decoupling: trends, uncertainties and opportunities for Brazil"

THEMATIC GUIDELINES

Throughout 2019, uncertainty increased on how the US-China trade war would impact global and Asian production chains under possible technological decoupling and in a world with a higher degree of managed trade. As we sail through the turbulent waters of the coronavirus pandemic and its dire economic consequences, we must prepare for an even more challenging scenario for the stability of global value chains and how disruptions or new trends could potentially affect Brazil and other emerging markets.

Considering global trade and investment flows in perspective, the story in the last decade has been one of a growing participation of developing economies, led by Asia and, within that, China. The changing trade patterns over almost three decades since China joined the WTO have impacted different regions in different ways, from the bountiful effects to commodity exporters – such as Brazil – to the dislocation of labor-intensive manufacturing production to China and then to other South and Southeast Asian countries, to the creation of a thriving electronics supply chain in East Asia, to mention a few trends. In addition, those patterns have had a direct impact on FDI, with China and Hong Kong ranking high in FDI attraction from US and Europe, but also among the largest sources of outward FDI. Trade patterns were also the expression of evolving technologies and new trends in IT and robotization, with direct effects on inter-sector productivity.

The looming US-China trade war had already caught attention of large international manufacturers to the risks of over-reliance on China in the face of potential technological decoupling. To be sure, those risks and concerns have always been there, but efficiency considerations and China's reliability were perhaps deemed higher benefits. During the past years, rising labor costs in China accounted for the relocation of production to countries such as Vietnam, Bangladesh, India, among others. But the benefits of relocation to a few sectors were not replicable to all of them, not only taking into account the reliability of the Chinese business environment but also the growing Chinese market (the local demand for American firms producing in China is estimated at around US$ 700 to 800 billion).

But as COVID-19 set in in early 2020, global supply chains face new challenges related to their reliance on China: not only early disruptions proved the need to ensure more resilience but the spread of the epidemic to the world increased political and strategic concerns over the high degree of manufacturing production concentrated in China, especially in pharmaceuticals. Export restrictions adopted in this area also highlight the risks of not maintaining supply of critical goods closer to home. So, despite the swift moves of the Chinese government to ensure the continued operation of foreign-invested companies – which were recognized by many important players – there seems to be a new strong case for greater diversification of manufacturing production, with the support of many world leaders.

The **trade-off between efficiency and resilience** will be high on the political and business global agenda for the coming years. What does it mean for Chinese/Asian supply chains, for FDI/global multinationals, and for Brazil? This is the broad topic of our session.

We invite our speakers and audience to address the session's main theme and hereby suggest a few aspects to be discussed:

- Challenges for global trade governance: views from the US/EU, Asia and Brazil/Latam. How concurrent trends of globalization, regionalization/re-localization and decoupling could play for different regions in global trade? How will commodity importers/exporters fare? Will de-globalization of trade in goods co-exist with increasing global data flows?

- What does the diversification of global supply chain mean for China and Chinese growth? Taking into account recent developments in the Chinese economy, couldn't it accelerate a few trends and help China build technological self-sufficiency? Should we expect even more FDI from China in East and South Asia? What are the geopolitical implications?

- Examples from the ground: how multinational companies have been reacting to the growing trade tensions? Can we discern patterns for different industrial sectors? China is doubling down on FDI attraction policies. The US and western countries are bound to insist on technological decoupling (or some degree of) based on broader national security concerns. What could be a more balanced picture for global manufacturing in a post-COVID-19 world?

- Do trade agreements have a role to play in reinforcing regional production chains and the re-localization of production? How could the Regional Comprehensive Economic Partnership (RCEP) support intra-Asian chains? How to equate China's support of multilateralism and WTO with Phase 1 China-US trade agreement? What role for Brazil-China/Latam-China cooperation on global trade and investment rules?