Opinion **Protectionism**

Trump is trading on the protectionist mood

When even centrists are circling the wagons, we know we have entered a different world

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The conventional wisdom is that Donald Trump has broken the global trading system. He has flip-flopped on Chinese sanctions, started a tariff war with allies, and even prompted French president Emmanuel Macron to predict that the G7 may turn into the " G6 plus one".

All this aside, it is naive to think that once Mr Trump is out of office, multilateralism will somehow rematerialise. The truth is that this US president is the symptom, not the cause of the problem. While his policy lurches capture headlines, the real story is that the multilateral trading system has been under pressure for some time from deep structural changes in the global economy, namely the rise of China, the shift to a digital economy, and the economic and political disruption those two changes have wrought.

Even if Mr Trump were gone tomorrow, nobody today in the US could run for president and win on a "let's go back to the 1990s" platform. Laissez-faire trade and globalisation in general are under fire in the US (as well as in Europe and any number of developing countries).

Consider the political reaction in the US to Mr Trump's settlement with the Chinese telecoms company ZTE, which the commerce department had previously banned from doing business in the US. When the administration lifted the ban last week, in exchange for a $1bn fine, there was outcry from both Republicans and Democrats, including Mark Warner, vice-chairman of the Senate intelligence committee, who stressed that ZTE still posed a "significant threat" to national security. Mr Warner also sent letters to Twitter and to Google's parent company, Alphabet, requesting information about Chinese data-sharing partnerships in the wake of revelations that Facebook had allowed numerous Chinese groups, including Huawei (the subject of US national security concern for years) to access users' non-public data.

When not only conservative nationalists but also business-friendly liberals are circling the trade wagons, you know we have entered a fundamentally new world. This will result in at least three big shifts. First, economics and national security will come closer together. A bill is now winding its way through Congress that would expand the deals reviewed by the Committee on Foreign Investment in the US, or Cfius, to include not only inbound mergers and acquisitions, but also outbound foreign investment by US firms. This is clearly a way to control capital flows between the US and China. This is not unexpected; Cfius is typically expanded every time a big new player comes on the trade scene.

In this more nationalistic world, we will see not only capital flows and financial systems, but also antitrust policy, weaponised. It is quite likely, for example, that any Democratic administration would have made the same decision to scupper Singaporean chipmaker Broadcom's bid for the US semiconductor company Qualcomm, on the grounds that America must remain competitive in 5G technologies. China's ZTE and Huawei together already have a 41 per cent share of the world's mobile infrastructure market, according to IHS Markit estimates. Only two non-Chinese players, Europe's Nokia and Ericsson, remain active as big players, and Huawei's research budget is more than that of both combined, according to a recent report from the research group Gavekal.

In some markets, Chinese products are ubiquitous. As one congressional staffer pointed out to me, Mr Trump's ban on American firms doing business with ZTE was a practical impossibility; replacing Chinese equipment in global supply chains would have taken months, if not years.

The existential fear in the US over China's growing high-tech competitiveness will probably result in more localisation, or even a "splinternet" that divides trade in high tech goods and services along regional lines. In April, the Federal Communications Commission passed rules making it difficult for US firms to buy Huawei equipment. Bipartisan political pressure is building to make it tougher for Chinese handset makers to execute retail sales in the US. Meanwhile, Huawei is laying off American employees, and has only one large US supplier (Flex, which makes its smartphones in India).

As companies adapt to this protectionist landscape, we will probably see more regulatory arbitrage and corporate horse-trading. It will be interesting to see if Qualcomm's acquisition of Dutch semiconductor manufactor NXP, which had been held up by Chinese officials, goes through now that ZTE has been given permission to operate in the US. Or if we hear any more about a nationalised 5G network in the US. Or if Mr Macron is able to implement his vision of a state-run industrial policy program for artificial intelligence.

In any case, most US companies that I speak to are shortening their supply chains — not only because of an increased perception of political risk, but also due to energy price inflation, a desire to meet customers' just-in-time product demands and a millennial appetite for locally sourced goods.

Some of the implications — such as more local job creation — could be quite positive. None of it is Trump-specific. It is a brave new world of trade. The challenges and opportunities will continue to play out long after the Trump chapter has closed.

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