The Geopolitics of Global Trade: An Update

2019 U.S. Cross-Border Tax Conference
May 14 – 16, 2019
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## Today’s presenters

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Welcome!

Today
— Managing Fragmentation – Geopolitical update from the Eurasia Group
— Trade Update and Managing Disruption throughout Your Organization
— Conference Lunch
— Trade Benchmarking Roundtable

Tomorrow
— Opening general session
— Welcome, Jeffrey LeSage, Americas Vice Chairman, Tax, KPMG LLP, The View from Washington, Perspectives from the OECD, Tax Policy and the Global Landscape

Breakout sessions
— Latest U.S. and Global Developments in Export Controls and Sanctions
— The Next Wave of Trade Automation
— The Impact of Tariffs on Transfer Pricing Issues and Customs Valuations
— Advanced Trade Trivia
— Check your conference app for more event details!
An interactive discussion exploring geo-politics and trade issues

01 U.S.-China

02 U.S.-EU

03 North America – USMCA

04 ASPAC – CPTPP and RCEP

05 Latin America-Brazil

06 Technology controls
U.S.-China: Inching toward a trade deal

— Washington has eased demands that China slash subsidies
— Beijing to expand foreign access to China’s cloud services sector
— Deal still on track before the G20 leaders’ summit in Japan
— Two big differences remain
  - Enforcement mechanism and snapback tariffs
  - Details on technology transfers, IP, and market access
— A deal doesn’t end U.S.-China tensions
  - Implementation risks
  - Technology and 5G
U.S.-EU trade: A contentious start to trade negotiations

— EU member states voted to officially start trade negotiations with the U.S.

— An agreement looks unlikely in 2019

— Despite real risk over autos, forward momentum should keep U.S. tariffs at bay despite Trump’s threats

— Lots of challenging issues on the table:
  - Cross-border data flows and European privacy regulations
  - Asymmetric demands on government procurement
  - Rules of origin that favor U.S. location
  - Above all, tariff and non-tariff barriers in agriculture
USMCA: Risks to ratification are largely on U.S. side

— Canada and Mexico should be able to ratify, but rising risks of delay or non-ratification in the U.S.
— Labor reform in Mexico is moving ahead.
— U.S. unions say labor reforms in Mexico aren’t enough to address concerns
— Democrats are raising the bar for their support
  - Labor
  - Environment
  - U.S. domestic politics
CPTPP has taken effect without U.S.

— Took effect at end 2018 after more than half of the signatories ratified the agreement

— Most of the agreement is identical to the original TPP pushed by the Obama administration
  - Stringent IP rules pushed by U.S. dropped

— The Trump administration, after toying with a return, seems determined to push bilateral agreements instead

— In Asia most of the U.S. effort is on a deal with Japan
  - Talks have been slow
  - Japan is mostly focused on avoiding tariffs
  - Sticking points: auto exports, currency rules, agriculture deals with non-market economies
RCEP: Significant progress is likely

— Ratcheted-up effort to deepen trade integration in Asia
  - U.S.-China trade dispute has injected momentum
— Significant progress is likely in H2 2019
  - The RCEP summit last November yielded modest progress, notably Beijing’s agreement on providing differential market access to India, which resolved one of the stumbling blocks in RCEP negotiations
  - Meeting in Bangkok on May 24 to hammer out details on goods and services sector
  - Substantial progress should be possible after the completion of elections in key participating countries—India and Australia (with Indonesia and Thailand done)
— Still facing technical challenges, especially on a broad framework for market access
— A deal is contingent on domestic politics
  - Growing nationalism, particularly in Malaysia
  - Indian elections
Latin America: Brazil pushing for freer trade but facing constraints

— Bolsonaro’s liberal economic agenda dictates Brazil’s trade policy
  - A push for freer trade and market-friendly measures
  - Brazil will prioritize bilateral free trade agreements (FTA) with U.S. and Europe
  - Gradual tariff reduction to raise productivity

— Greater emphasis on FTAs than regional trade bloc
  - Bolsonaro has pushed to amend Mercosur’s charter
  - Brazil seeks to bypass Mercosur and land more bilateral free trade pacts

— Constraints on trade policy implementation
  - Hard to unilaterally cut tariffs without bloc-wise consent
  - Argentina grappling with financial crisis and elections
  - Pushback from industrial associations

— Caught in U.S. trade protectionism
  - Brazil also falls victim to tougher U.S. trade policy, and failed to secure exemptions from U.S. tariffs on steel and aluminum
  - Benefit to Brazil’s soy exports from U.S.-China trade dispute will end with U.S.-China trade deal
Technology and export controls: Tightened export controls create major risks

— The U.S. has revamped its export control system
  - The Commerce Department still finalizing a list of restricted emerging technologies, including AI, robotics, and quantum computing
  - A new executive branch called the Office of Critical Technologies and Security was set up in January to facilitate technology supervision

— China is the primary target
  - The Commerce Department this month included many Chinese companies to the Unverified List (UVL), which prevents included entities from acquiring U.S. export-controlled items
  - The inclusion of ZTE on an embargo list in 2016, the ongoing Huawei offensive, and recent blockage of China Mobile from accessing U.S. market are notable examples

— Technology will continue to drive U.S.-China tension
  - The technology rivalry between U.S. and China will continue in various forms and pose significant risks for the global technology industry
  - Risk that U.S. decouples global technology supply chains, forcing third-party countries to choose sides, particularly U.S. allies
Questions
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