



Navigate the 2024 Midpoint

An Update on Key Trade and Geopolitical Trends

July 2024

2024 will continue to be a watershed year

Underscores the importance of planning and risk management

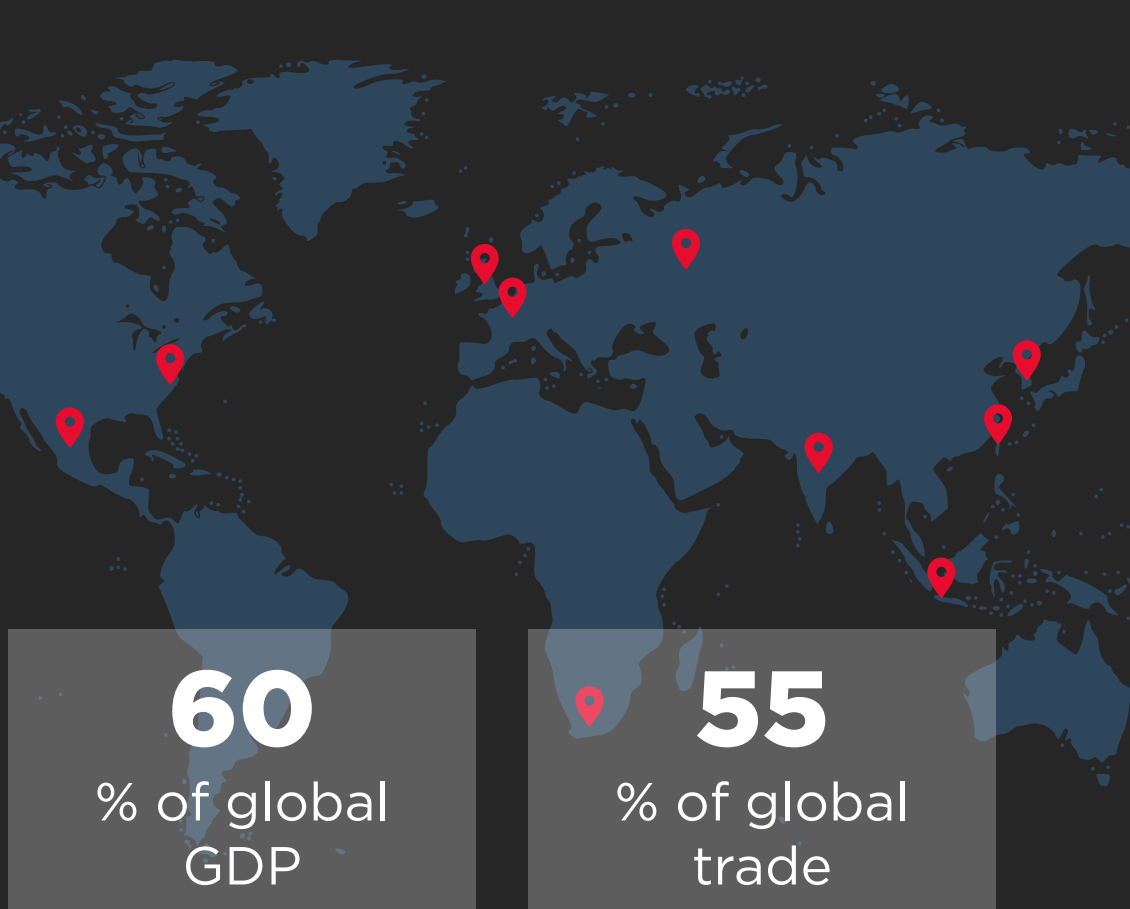
The certain uncertainties		... and the uncertain uncertainties	
Macroeconomics	Supply chains	Elections	Global geopolitics
Growth vs. caution Expensive basics	Countries competing for nearshoring investment through policy Sustainability requirements	Biggest year in history	Flare-ups everywhere
Slow growth in 2024, set to rebound into 2025 Wages and input cost levels remain high	De-risking ramps up in 2024, but infrastructure and decarbonization out of step with emission requirements	Civil unrest a key concern Politics continues to pressurize supply chains	Global supply chain impacts contained for now US or China domestic crises could alter the trajectory

AGENDA

- **Elections**
Major realignments
- Looming Geopolitical Risks
Unresolved crises, premium on risk management
- Long-term picture for supply chains

An unprecedented wave of major elections in critical regions

Results will determine fundamental policy choices impacting geopolitics and supply chains



Jan	Taiwan	President	Parliament
Feb	Indonesia South Africa	President	Parliament National Assembly
Mar	Russia	President	
Apr	South Korea		National Assembly
May	India*		Lower and upper houses
Jun	EU Mexico	President	Parliament Senate and Ch. Deputies
Jul	UK		Commons
Nov	United States	President	Congress

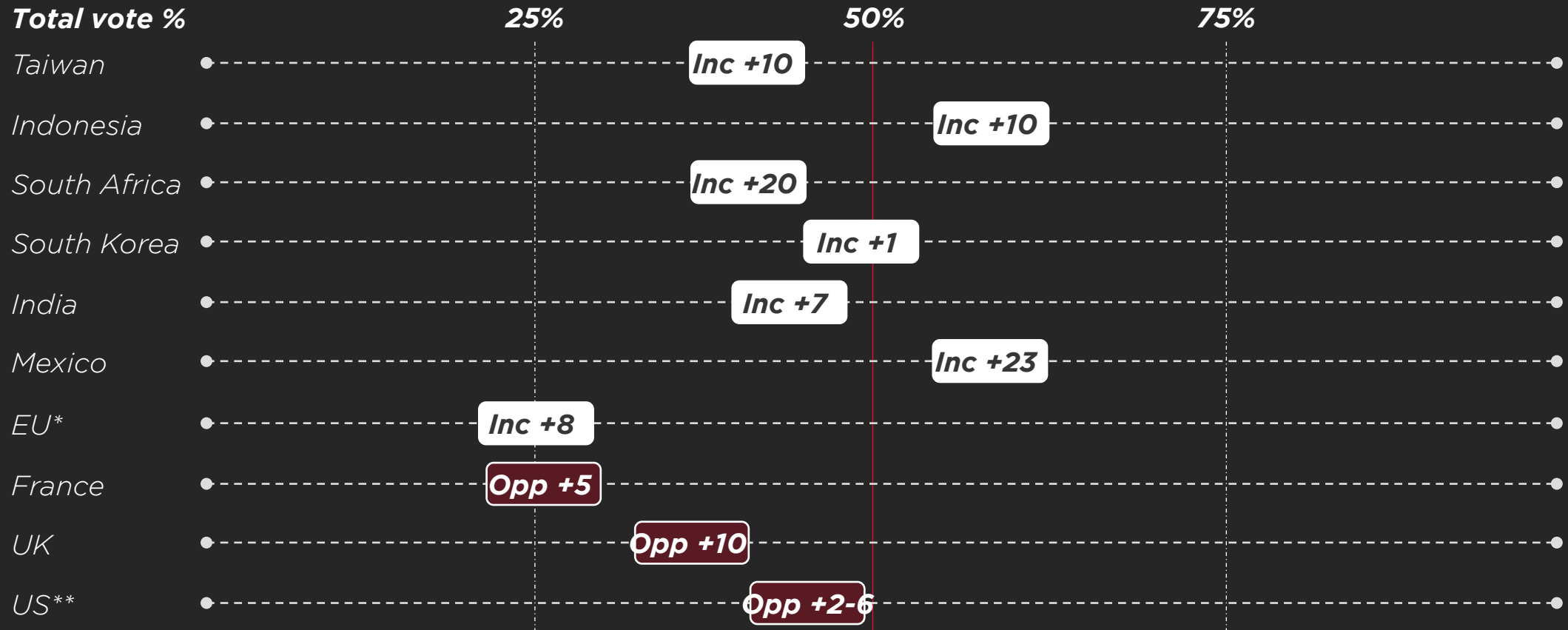
* April-May

Results indicate mostly weak incumbent wins or a flip to the opposition

With critical impacts on supply chains

Inc + 10

Winner (incumbent or opposition party) and margin over 2nd place



* Percentage of seats for largest party

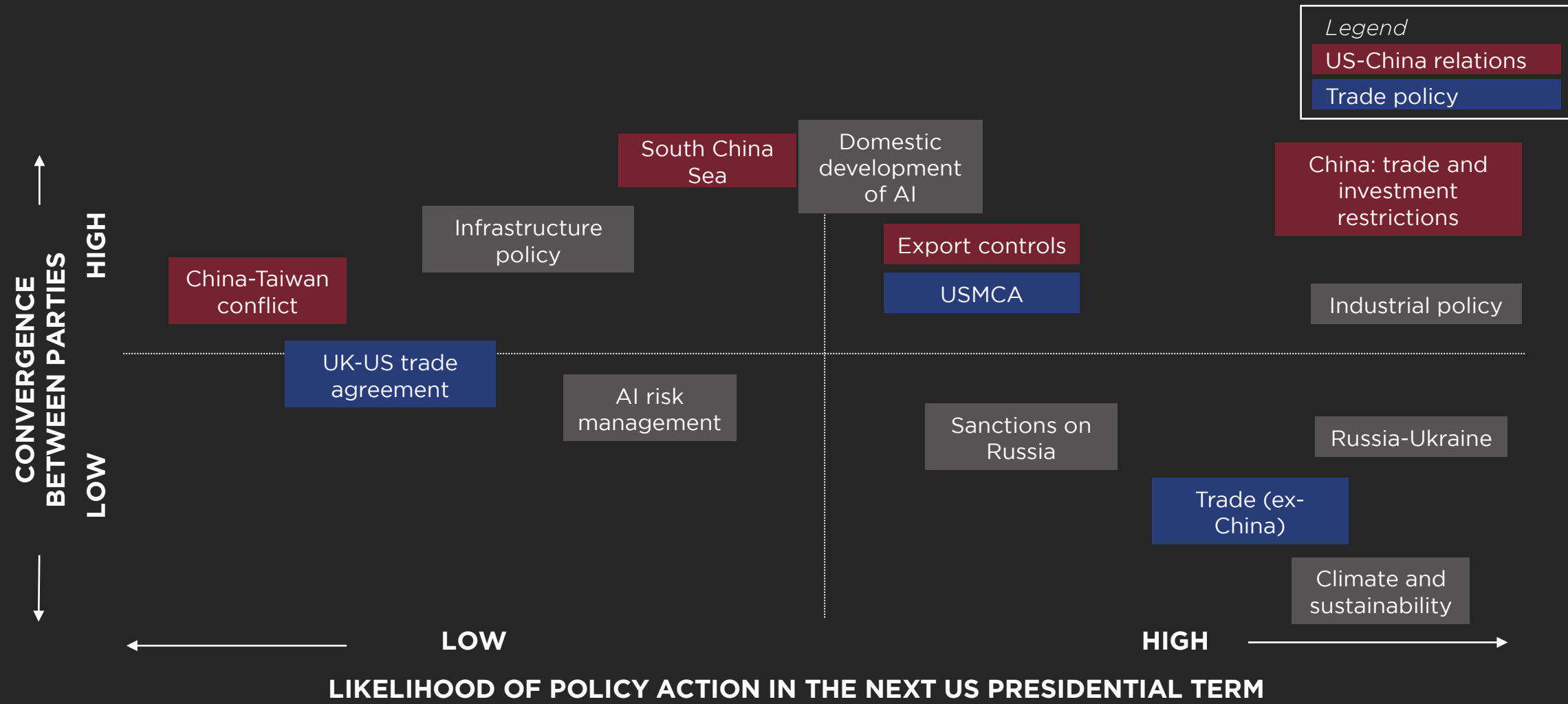
** Opinion polls

Source: Onyx

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US election spotlight: what's at stake?

US-China tensions are given, trade policy could experience wide swings



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China continues to be a major focus of US trade

But no clarity on what the end game should be



Key potential USMCA review themes

- *Containing China: China-Mexico trade and investment*
 - *Chinese auto sector investments*
 - *Chinese exports to Mexico*
- *Regional value content and rules of origin*
- *Energy (Mexico)*
- *Labor standards (Mexico)*
- *Agricultural sector*
- *US trade deficit (Trump adm.)*

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China-related initiatives expanding beyond traditional tech

Putting a premium on companies' contingency planning and expectations management

Key China-related initiatives under way Non-exhaustive

- Tariff-specific:
 - 301 and 232 measures
 - Removal of PNTR status
- Mixed tariff/non-tariff:
 - De minimis reduction
 - Forced labor import bans
 - Sanctions and entity lists
 - Strengthen antidumping/countervailing
- Technology:
 - CFIUS: new Treasury Dept rules (Aug'24) on semis, quantum, AI
 - Congress-enacted legislation on permanent screening
 - Connected vehicles
 - Bulk data transfers and IP protections
 - Advanced chip access and trusted partner packs
- Supply chain resilience, investment:
 - IPEF/APEP
 - Concern about vulnerabilities in connected port infrastructure, shipbuilding
 - White House Council on Supply Chain Resilience report (Dec'24)
- **Reviews/future measures/areas of concern:**
 - **Commerce Dept list of strategic industries for future export control and tariff regimes**

Industries likely under consideration for inclusion (non-exhaustive)

Aerospace and defense	Electrical equipment and appliances
Agriculture	Energy equipment (incl. oil & gas)
Autos and parts	EV parts and accessories
Batteries	Instruments manufacturing
Biotechnology	Machinery
Building materials	Metals and fabrication
Chemicals	Pharmaceuticals
Communications technology	Retail
Consumer products and services	Semiconductors
Critical minerals	Software

Source: Federal Register Comments (Docket No. 240530-0148), Onyx
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Human rights trade law has growing impact on trade

Impact limited by enforcement capacity and complexity

Forced labor and poor conditions
 Practical impacts go beyond human rights

Religious freedom
 Poised for application in Trump admin

Tool Sets:

- USMCA improves enforcement of labor issues
- DHS task force on forced labor increases CBP responsiveness to claims
- UFLPA expands on existing trade law with presumption of forced labor in goods from XUAR

- New provision in the TPA of 2015 require consideration of religious freedom in trade negotiations
- USCIRF recommended sanctions by State Department on individuals and entities limiting religious freedom.

Applications:

- Existing FTA renegotiations and reviews such as USMCA
- Indo-Pacific Economic Framework (IPEF)
- U.S.-Taiwan trade agreement
- Generalized System of Preferences (GSP) renewal
- Critical Minerals Agreements

Trade Impact:

- Address wage competition concerns in the US
- Reduce forced labor inputs into imported goods even from third countries

- Potential for expanded use in negotiations to reduce imports related to XUAR
- Pressure to take action on the issue

What's Next:

- Expansion in enforcement capacity and industries
- Coordination with allies (G7 and EU) and broader incorporation into agreements
- Congressional demands for supply chain transparency

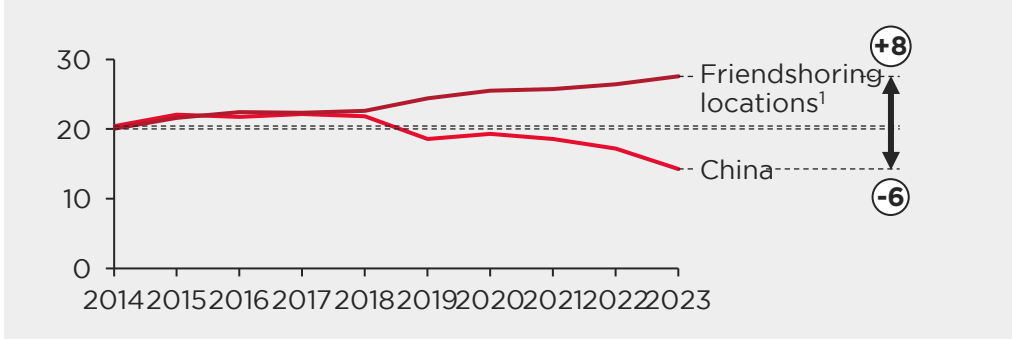
- Broader use of religious freedom concerns to drive desired outcomes in trade
- Mike Pompeo-led State Department likely to utilize sanctions tools
- Continued push from some in Congress

Source: CRS, Kelley Drye, CSIS, Onyx
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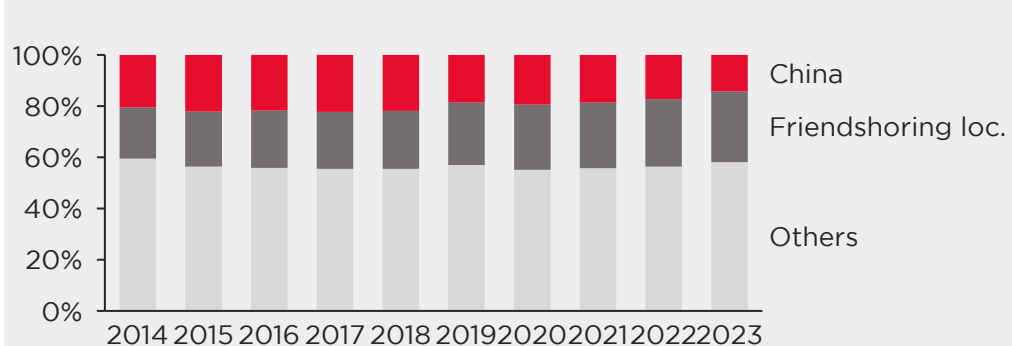
US imports already showing some impact of de-risking strategies

Across “friendshoring” locations

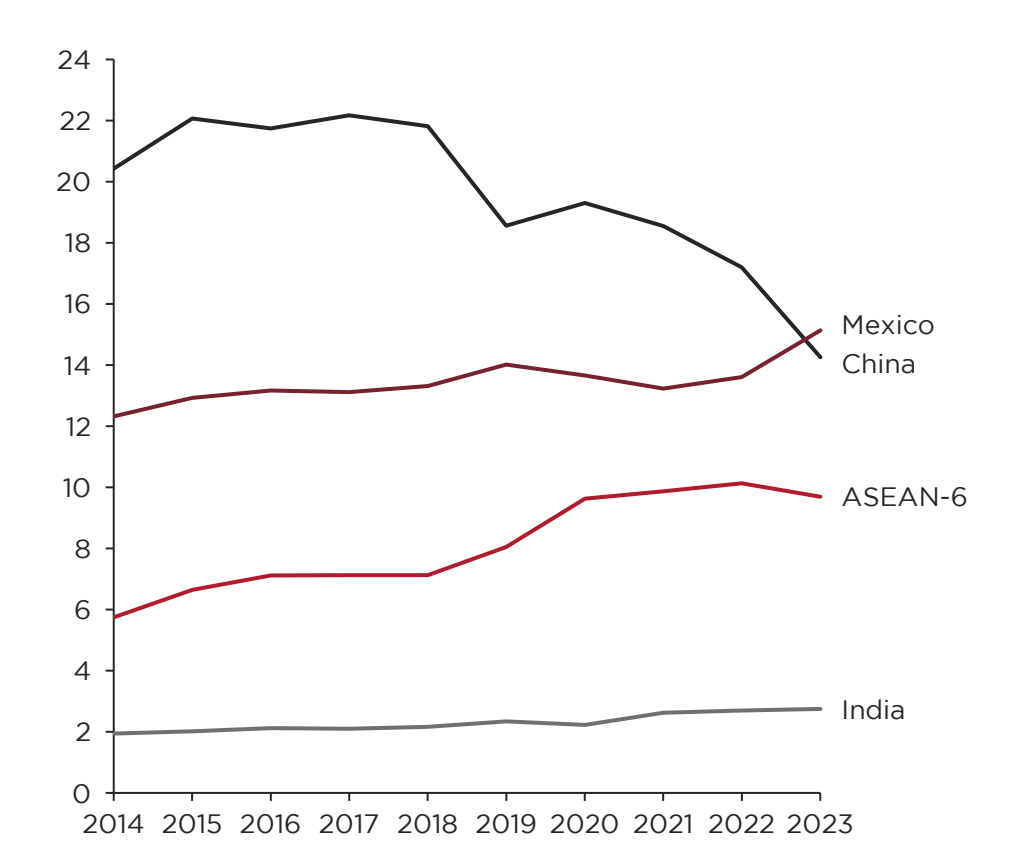
US imports % by origin



US imports % by origin



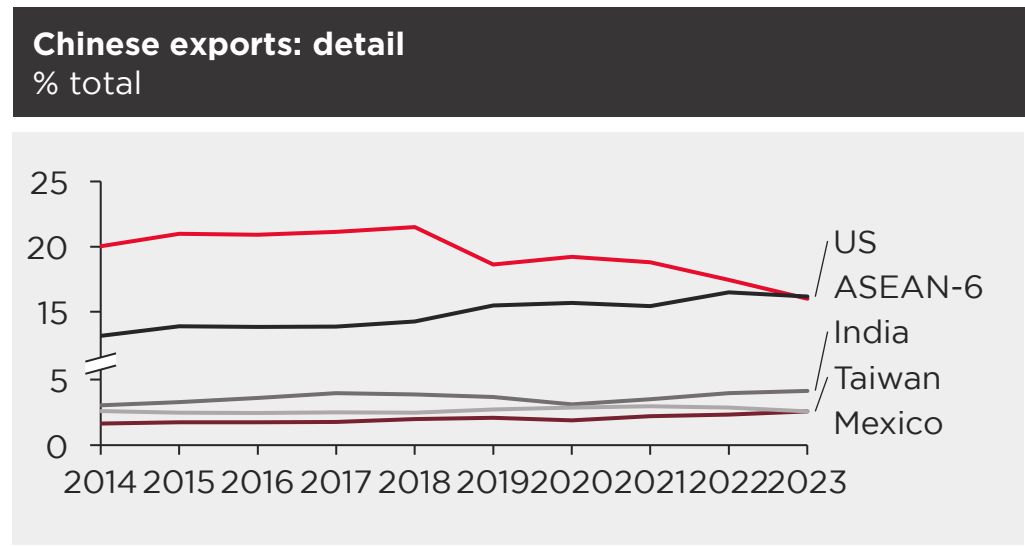
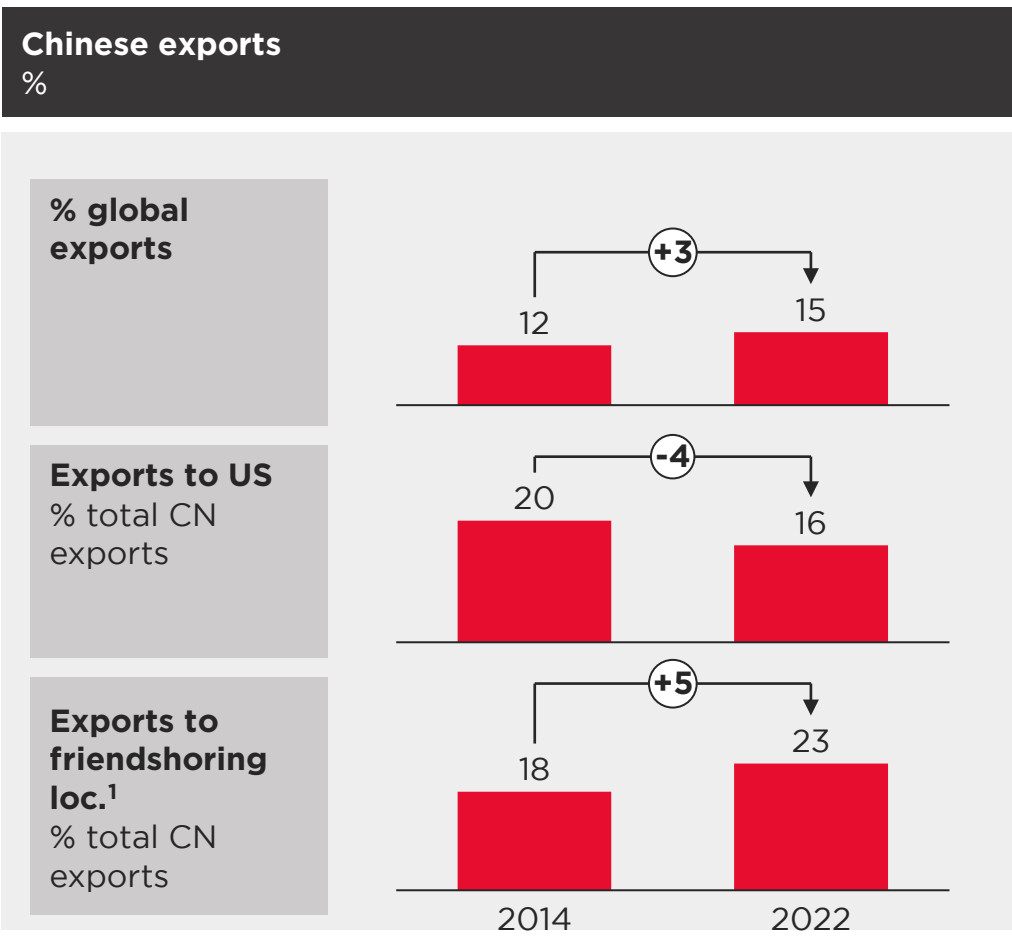
US imports: detail % total



1 Friendshoring locations: India, Indonesia, Malaysia, Mexico, Philippines, Singapore, Thailand, Vietnam
Source: TradeMap, Oxford Economics, Onyx
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However, China itself is also de-risking

While growing its share of exports to friendshoring locations



China v. US as a trade partner

Ranking by country, 2022

	ID	MY	PH	SN	TH	VN	IN	TW	MX
China	1	1	1	1	2	2	3	1	3
US	2	3	2	3	1	1	1	2	1

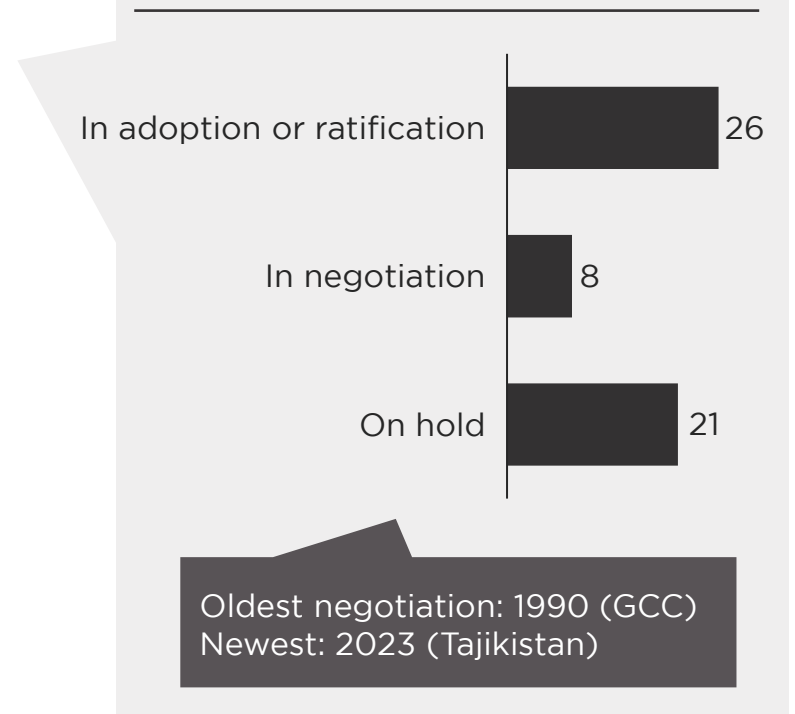
¹ Friendshoring locations: India, Indonesia, Malaysia, Mexico, Philippines, Singapore, Thailand, Vietnam
 Source: TradeMap, Oxford Economics, Onyx
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Trade policy leaning defensive

Major trade deals not expected



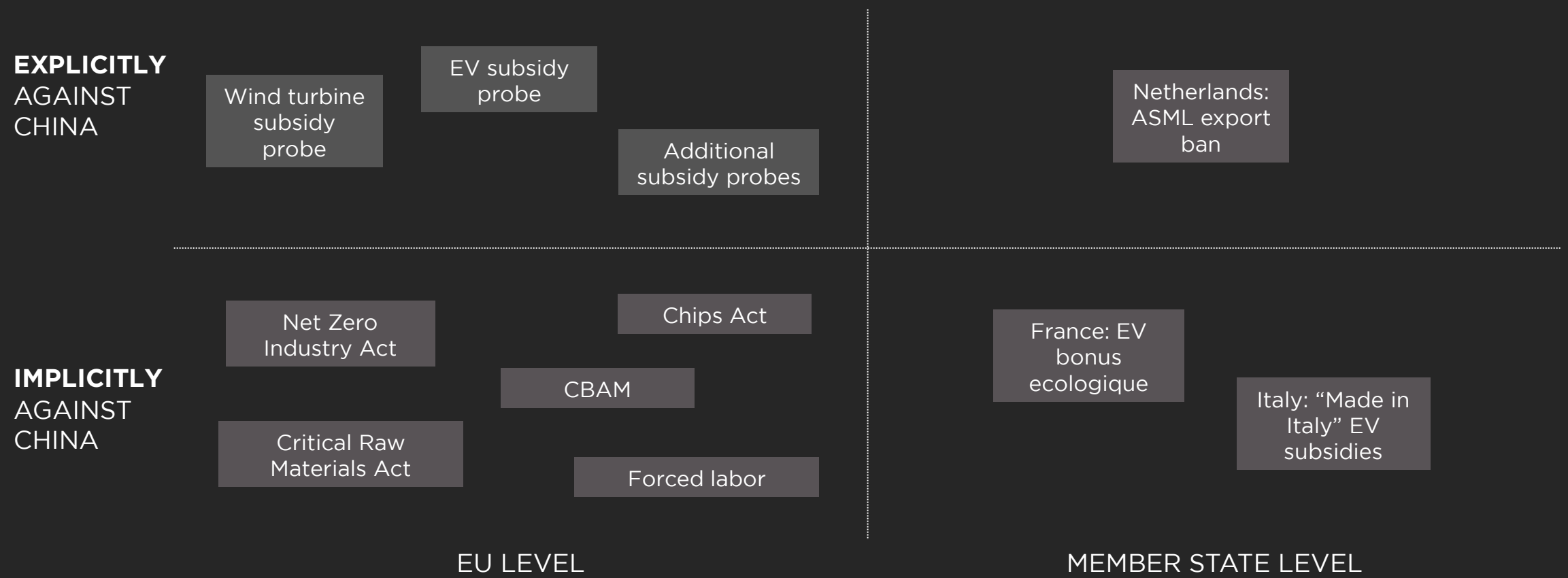
EU trade negotiations
countries



Source: EC, Onyx
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Policy actions: Recent and emerging

Many policies aimed at China will also affect other trading partners



AGENDA

- Elections
Major realignments
- **Looming Geopolitical Risks
Unresolved crises, premium on risk management**
- Long-term picture for supply chains

The world is becoming...

Multipolar

Aka there are more than one or two leading countries, even if unequal

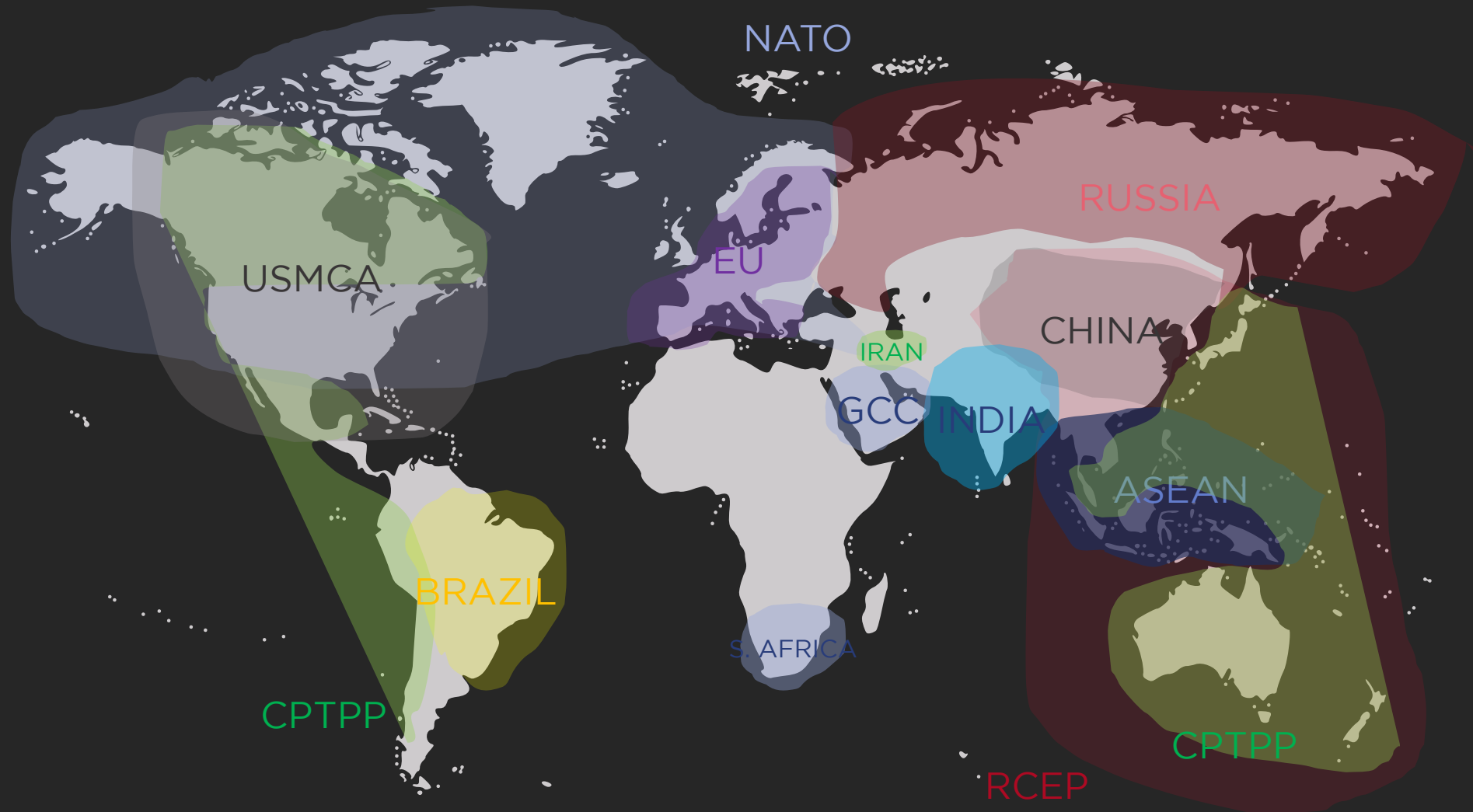
Complex

Overlapping and contradictory alliances

Unstable

Conflicts making a return

A complex web of major alliances and lone wolves

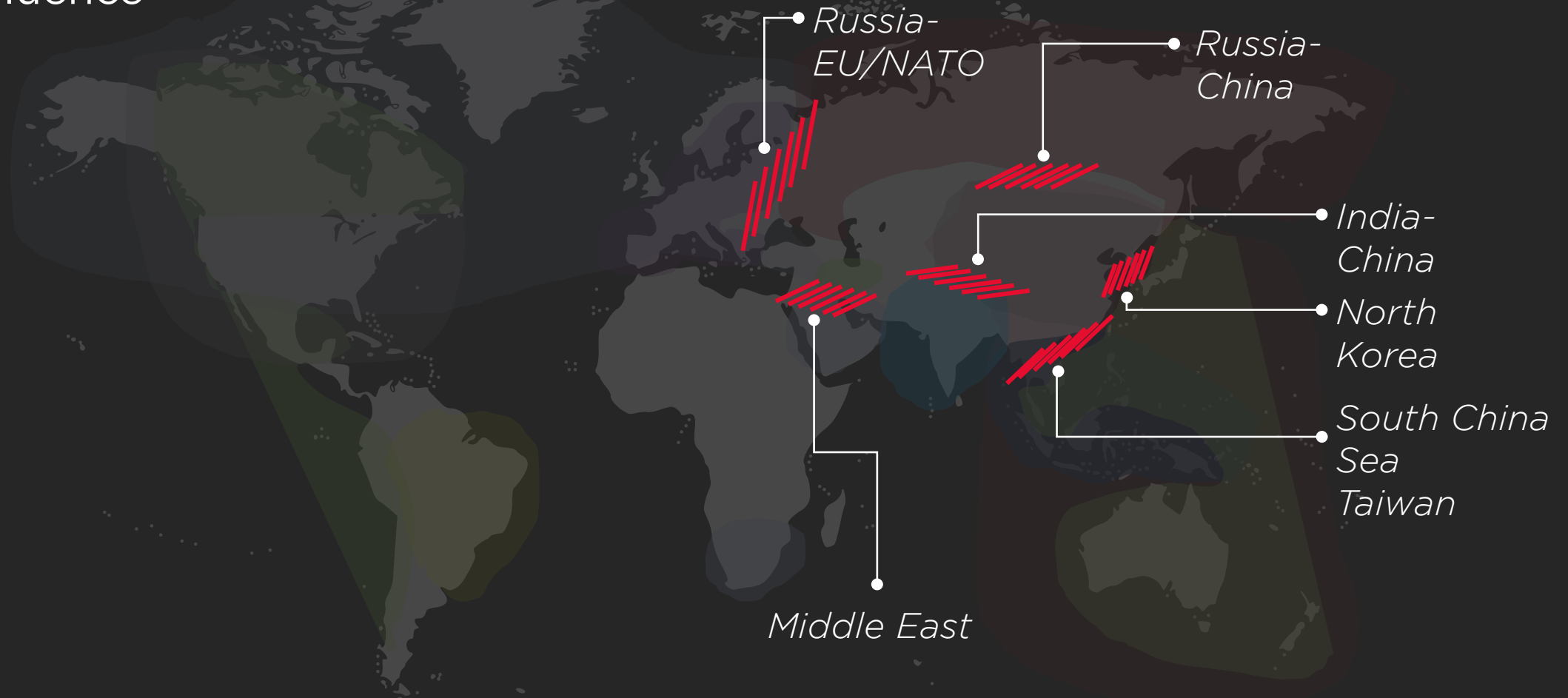


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With growth comes instability

Geopolitical fault lines develop at the borders of major spheres of influence



Geopolitical fault lines escalating from January

Frozen conflicts seeing a rekindling of longstanding threats

KEY SCENARIOS AND SIGNPOSTS

 *Current trend*

GEOPOLITICAL FAULT LINE	DE-ESCALATION	STATUS QUO	ESCALATION
RUSSIA-EUROPE (UKRAINE)	<ul style="list-style-type: none"> Both parties see room for an acceptable political compromise 	<ul style="list-style-type: none"> Military power and resources relatively balanced between both parties 	<ul style="list-style-type: none"> One or both parties seeks complete victory Balance of military resources tilts US security umbrella falters
SOUTH CHINA SEA	<ul style="list-style-type: none"> All parties see room for an acceptable political compromise 	<ul style="list-style-type: none"> Claims remain unresolved, but economic cooperation takes precedence 	<ul style="list-style-type: none"> US security umbrella falters Accidents leading to military action One or more parties believes it can prevail with acceptable economic costs
CHINA-TAIWAN		<ul style="list-style-type: none"> Independence not pressed publicly 	
MIDDLE EAST (ISRAEL-HAMAS-HEZBOLLAH)	<ul style="list-style-type: none"> Israeli aims include negotiated solution External support for militants waivers Global powers united in containing conflict 	<ul style="list-style-type: none"> Israeli military aims confined to Gaza External support for militant groups limited 	<ul style="list-style-type: none"> Israeli military aims include other countries in the region, esp. Lebanon, Syria
MIDDLE EAST (RED SEA)			<ul style="list-style-type: none"> Conflict spreads to Hormuz Military operations link up with Israel/Hamas Resolution explicitly involves Yemen

Global supply chain impacts remain contained for now

Prepare for hot spots to flare up, but with manageable market volatility

SUPPLY CHAIN RISK EXPOSURE TO GEOPOLITICAL FAULT LINES

GLOBAL EXPOSURE BEYOND LOCAL OPERATIONS; IMMEDIATE EFFECTS ONLY: EXCLUDES GLOBAL CONFLICT-TYPE ESCALATIONS

 Current trend

GEOPOLITICAL FAULT LINE	INPUTS	SOURCING AND PRODUCTION	DISTRIBUTION AND LOGISTICS	END MARKETS
RUSSIA-EUROPE (UKRAINE)	<ul style="list-style-type: none"> Key minerals (titanium, nickel, cobalt, platinum, aluminum) Fertilizers and wheat 	<ul style="list-style-type: none"> Europe's energy costs Disruptions near the border with EU (escalation scenario) 	<ul style="list-style-type: none"> Fuel price volatility 	<ul style="list-style-type: none"> Inflationary pressure esp. in Europe Disruptions near the border (escalation scenario)
SOUTH CHINA SEA	<ul style="list-style-type: none"> All regional exports affected (escalation scenario) 	<ul style="list-style-type: none"> All regional production affected (escalation scenario) 	<ul style="list-style-type: none"> Fuel prices/rate volatility and major lane disruption (escalation scenario) 	<ul style="list-style-type: none"> Global crisis (escalation scenario)
CHINA-TAIWAN		<ul style="list-style-type: none"> Major disruption of semiconductor supplies (escalation scenario) 	<ul style="list-style-type: none"> Rate volatility and major lane disruption (escalation scenario) 	
MIDDLE EAST			<ul style="list-style-type: none"> Fuel price volatility Major lane disruption (Suez, Bab el-Mandeb, Hormuz) (escalation scenario) 	

Middle East: new normal scenario is expected in short- to medium-run

China and Saudi Arabia can play a role in de-escalating the tension

DE-ESCALATION

best case

Potential paths

- **Israel and Hamas** and/or broad Palestinian representation **negotiate a peace agreement**
- **Houthis reach an agreement** with Saudi Arabia and cease their attacks in the Red Sea
- **Iran pauses its support** for the Axis of Resistance, including potentially due to overtures from China

DRAGGING ON

short- to medium-run base case

Potential paths

- Israel-Hamas conflict drags on, even with occasional ceasefires
- Iran keeps supporting the Houthis to continue their attacks in the Red Sea
- Red Sea is still risky; re-routing to the Cape of Good hope becomes the new normal

ESCALATION

low case

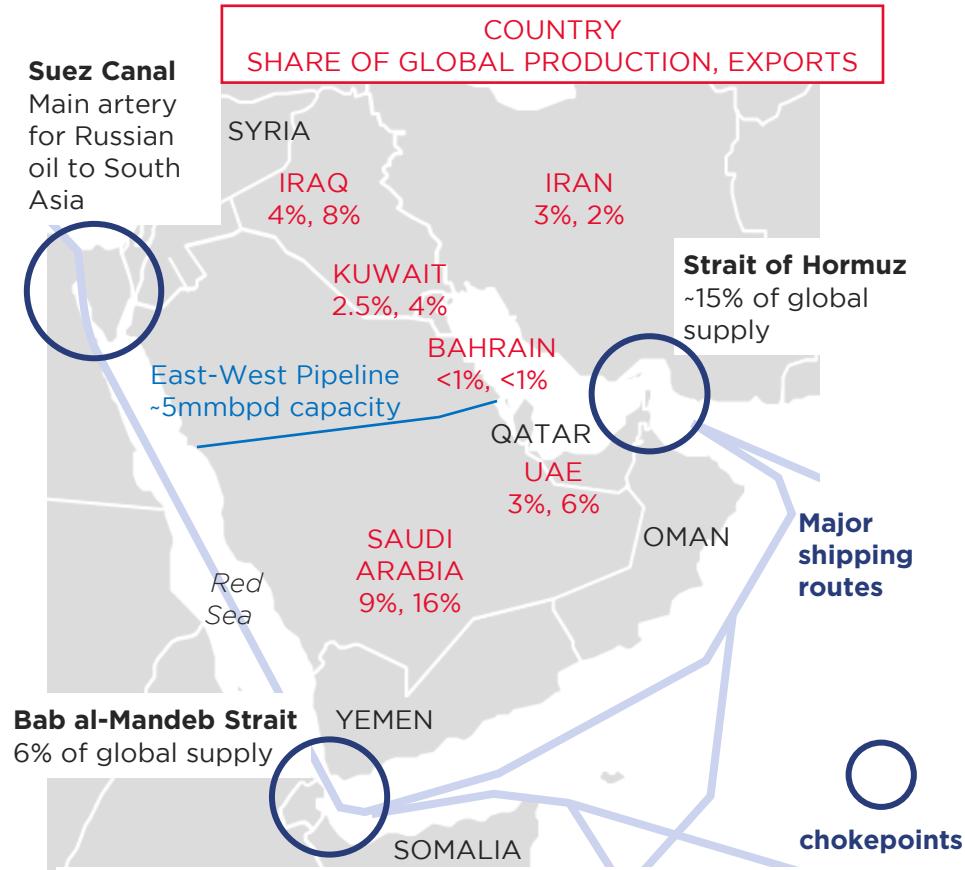
Potential paths

- A new front explicitly opens in **Lebanon**, involving sustained combat between Israel and Hezbollah
- **Conflict spreads to the Gulf**, leading to a stop to volumes crossing Hormuz and direct involvement from Iran and/or Saudi Arabia

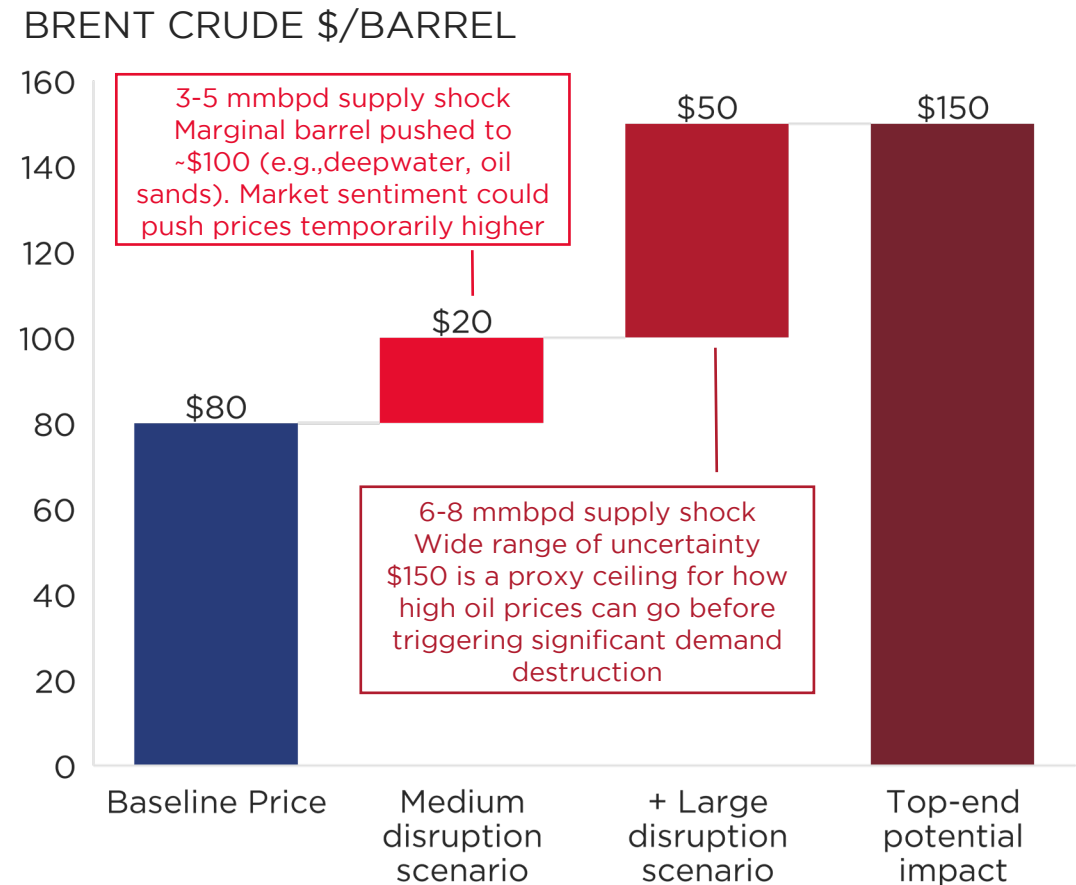
Middle East: escalation threatens three major chokepoints

Potential for oil prices to jump to \$100-\$150 per barrel

>40% OF GLOBAL OIL EXPORTS AT RISK



POTENTIAL OIL PRICE IMPACTS OF ESCALATION



AGENDA

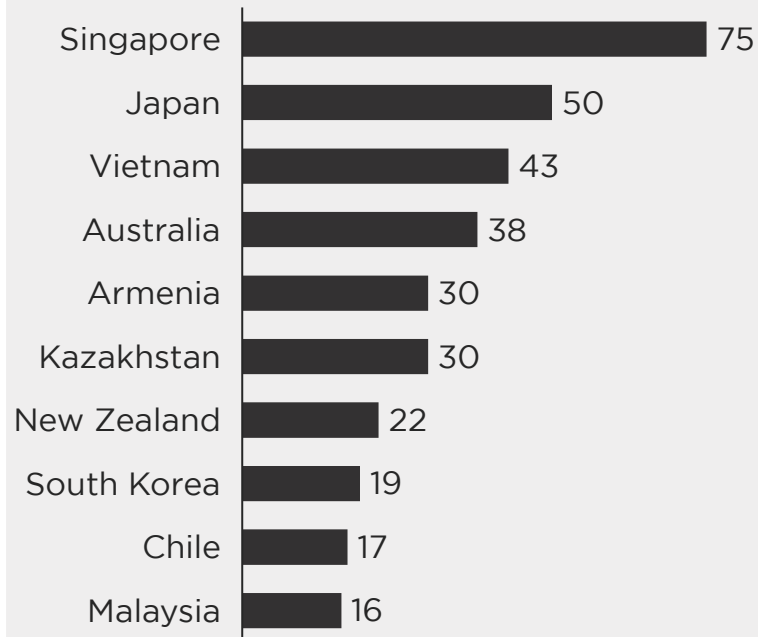
- Elections
Major realignments
- Looming Geopolitical Risks
Unresolved crises, premium on risk management
- **Long-term picture for supply chains**

We've seen a flurry of trade agreements led by middle powers

But the best may be behind us

Top 10 trade negotiators

new bilateral trade relationships since 2018*



Agreements in the offing

New negotiations launched since 2018

Agreement	Launch
Iceland Liechtenstein Norway UK	2021
Brazil Paraguay (consolidated)	2020
Chile Ecuador	2020
Morocco UK (consolidated)	2019
Liechtenstein UK (consolidated)	2019
Switzerland UK (consolidated)	2019
Tunisia UK (consolidated)	2019
Kosovo UK (consolidated)	2019
Bosnia and Herzegovina Turkey	2019
Colombia MERCOSUR Services	2018
EFTA Indonesia	2018
EFTA Turkey	2018

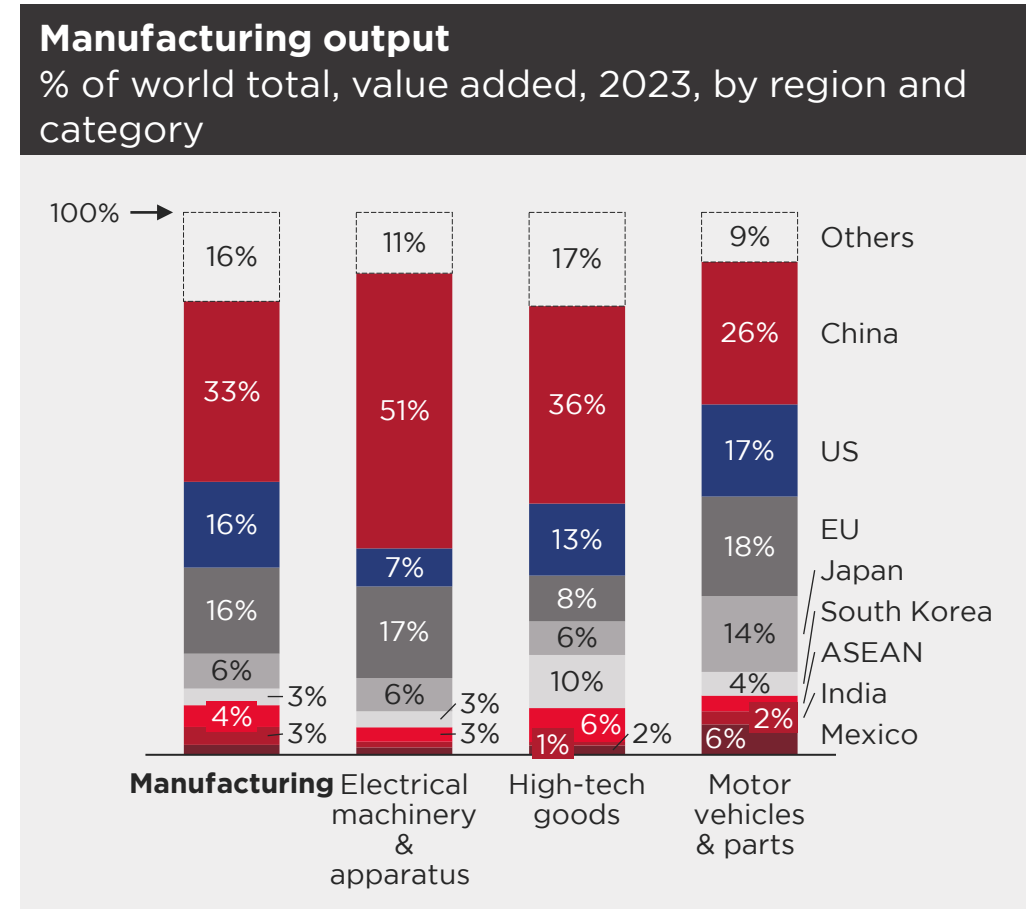
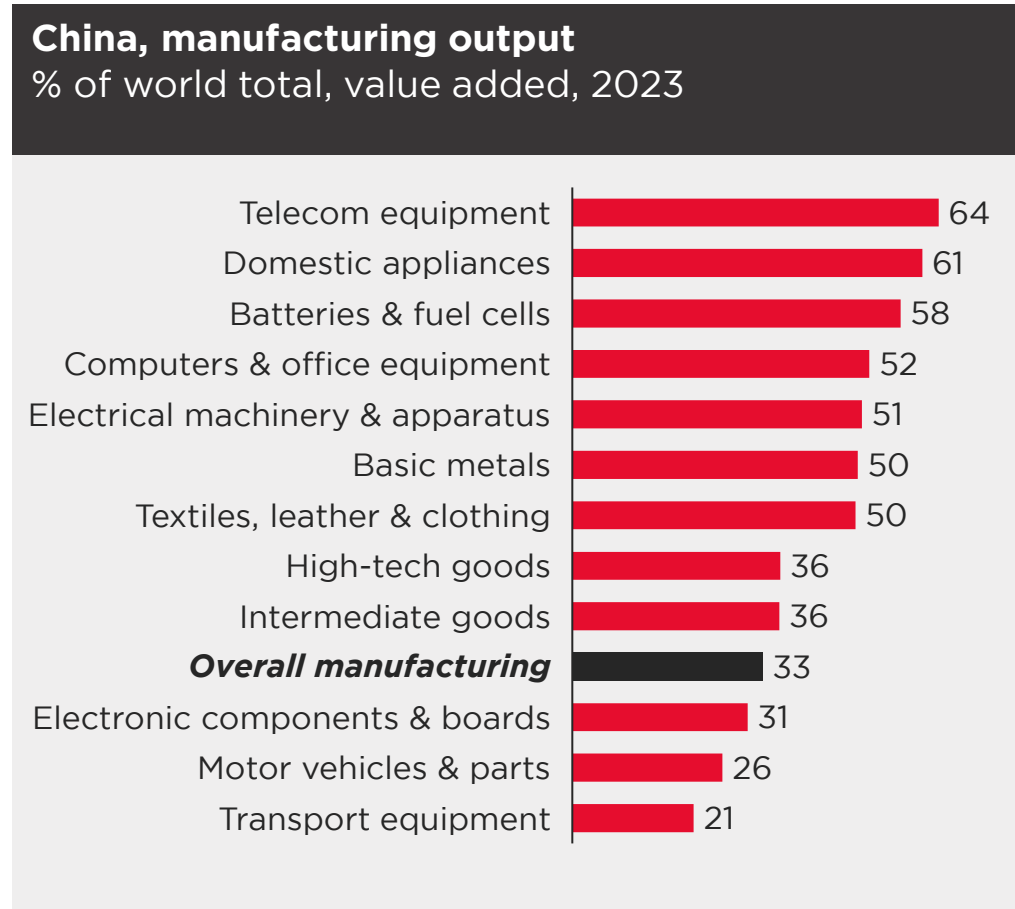
* Excludes UK, AfCFTA and EC EPAs

Source: DESTA, Onyx

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But China won't be replaced easily...

Deep positioning in global value chains means significant decoupling may take 5-10+ years



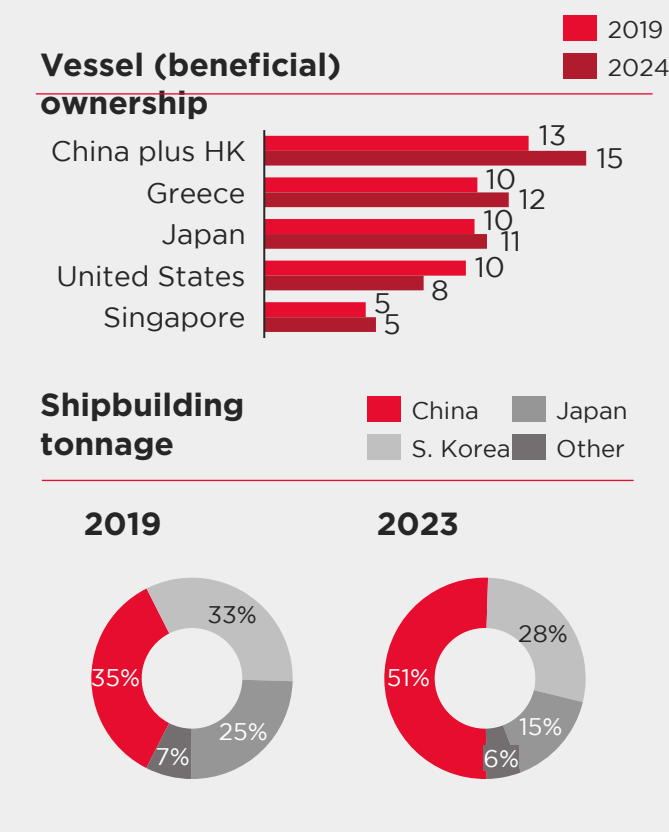
... also given its deep connections in global supply chains

Leaving companies facing US/EU pressure with little room for maneuver

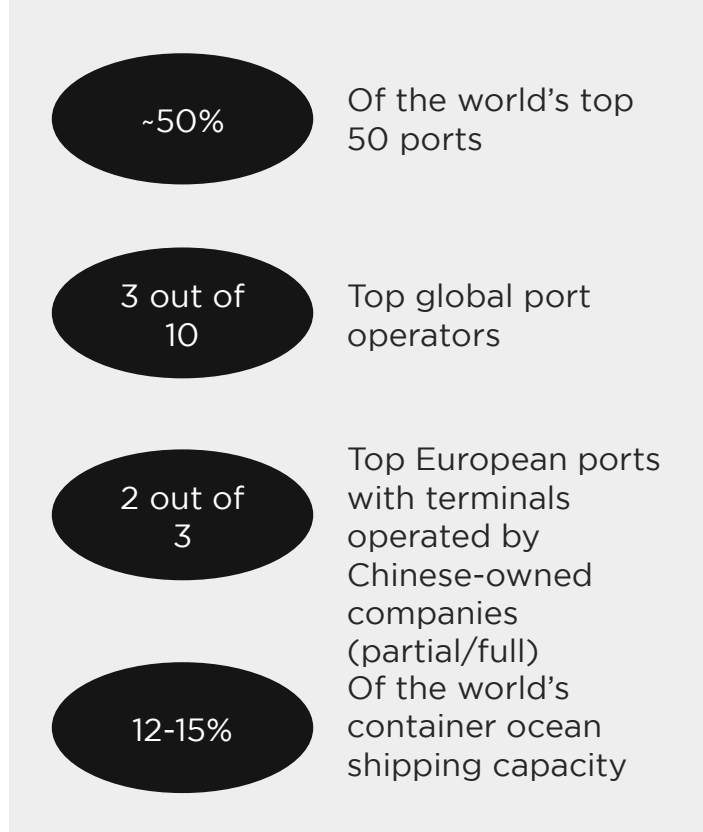
TOP SUPPLIERS OF CRITICAL MINERALS % MARKET SHARE, 2024



TOP SHIPBUILDERS AND OWNERS % GLOBAL

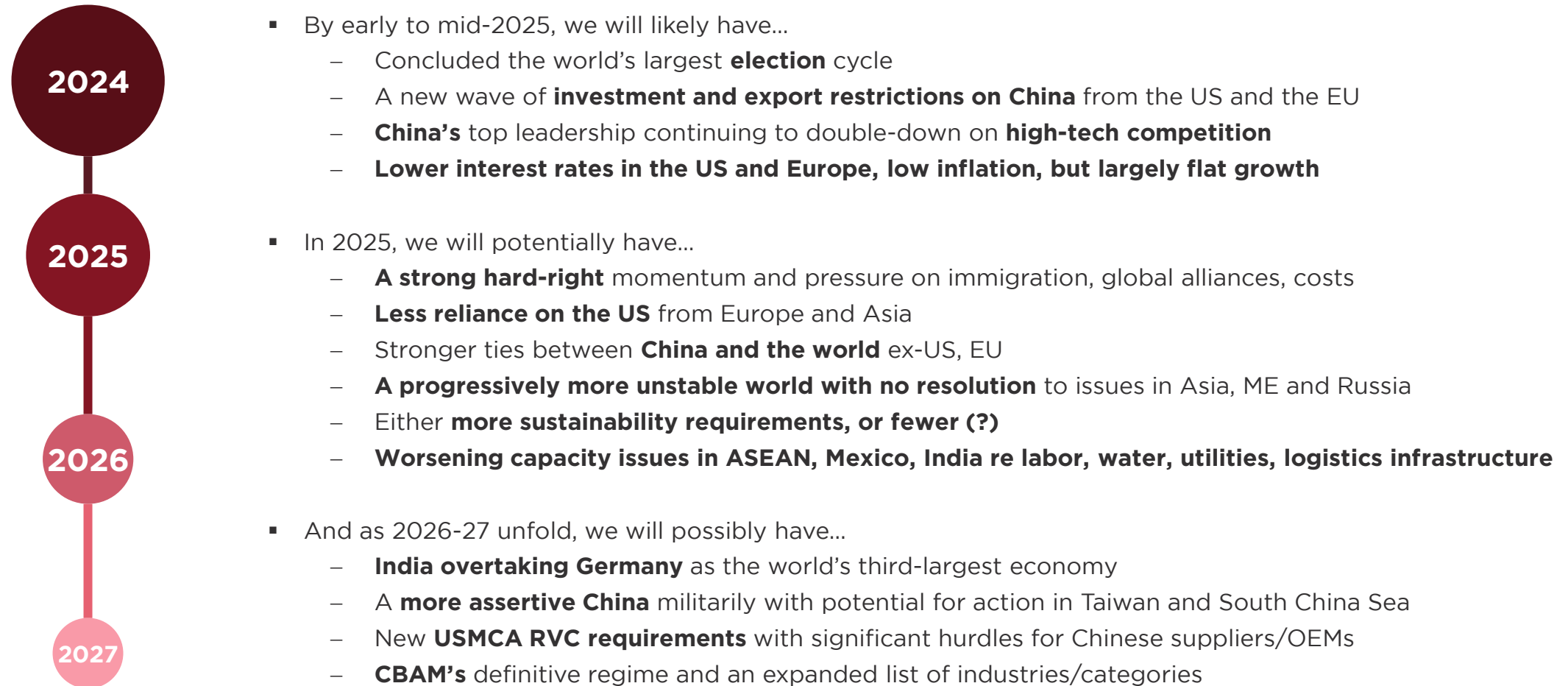


TOP PORTS AND PORT OPERATORS CHINESE OWNERSHIP



Wrapping up...

Our views in a timeline



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