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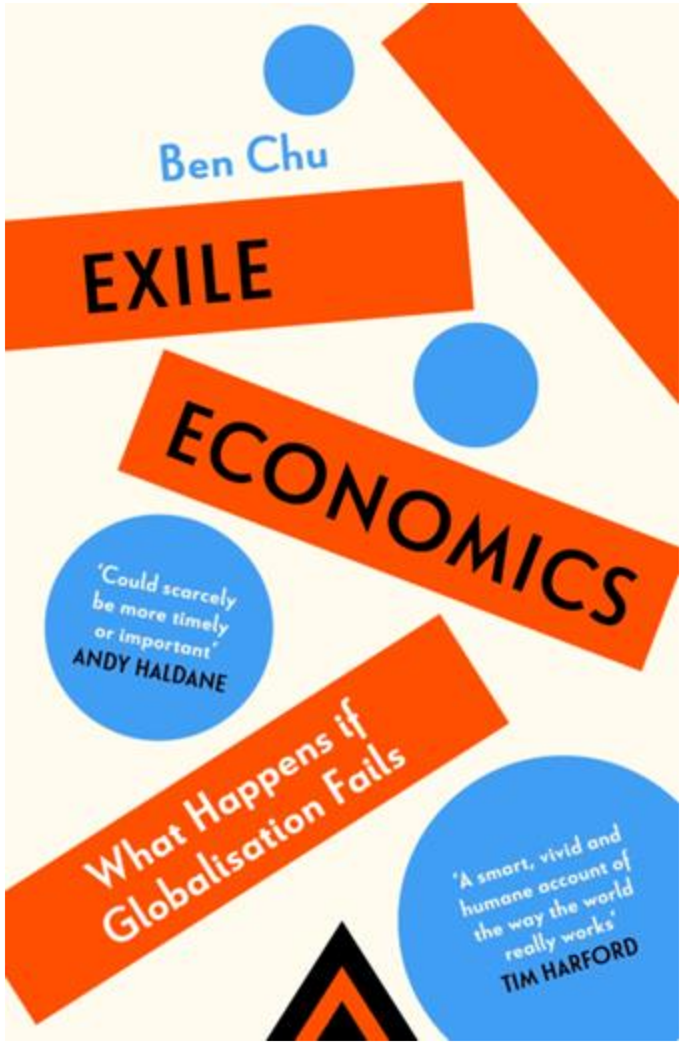
Tariffs and Trade: What the new era means for the world and Britain

Ben Chu

Policy and Analysis Correspondent, BBC Verify

A new era of Exile Economics…



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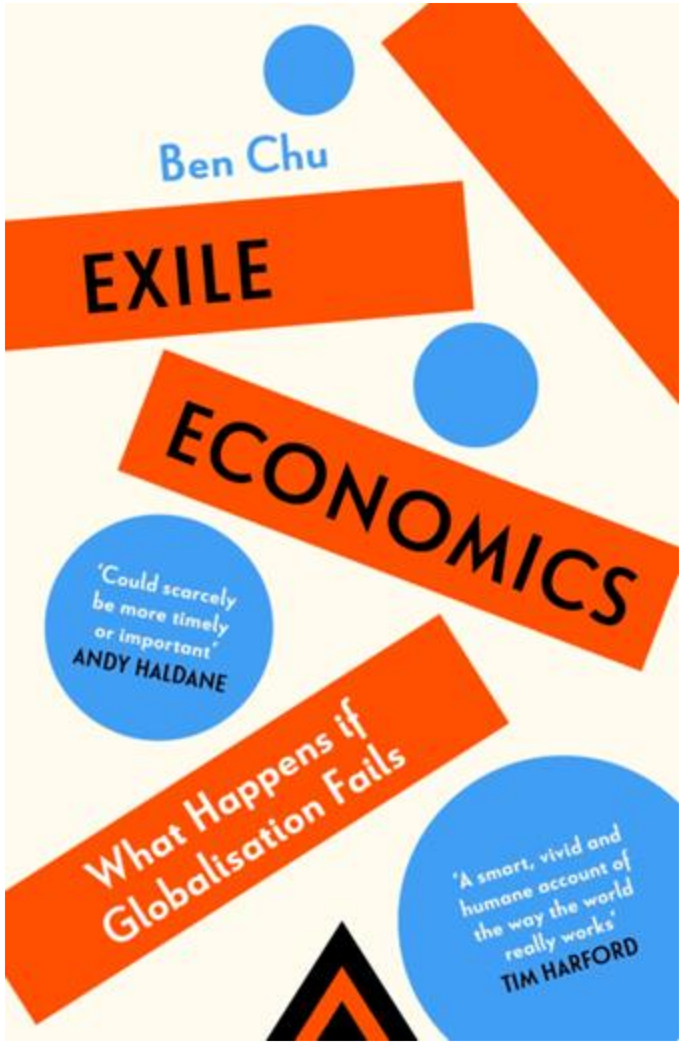
....Exile Economics - what is it?

- Rejection of interdependence
- Downgrading of multilateral collaboration
- Striving for greater national self-sufficiency

Related to:

- Geoeconomics/economic coercion
- Economic nationalism



Donald Trump

“It’s our declaration of economic independence.”

2 April 2025

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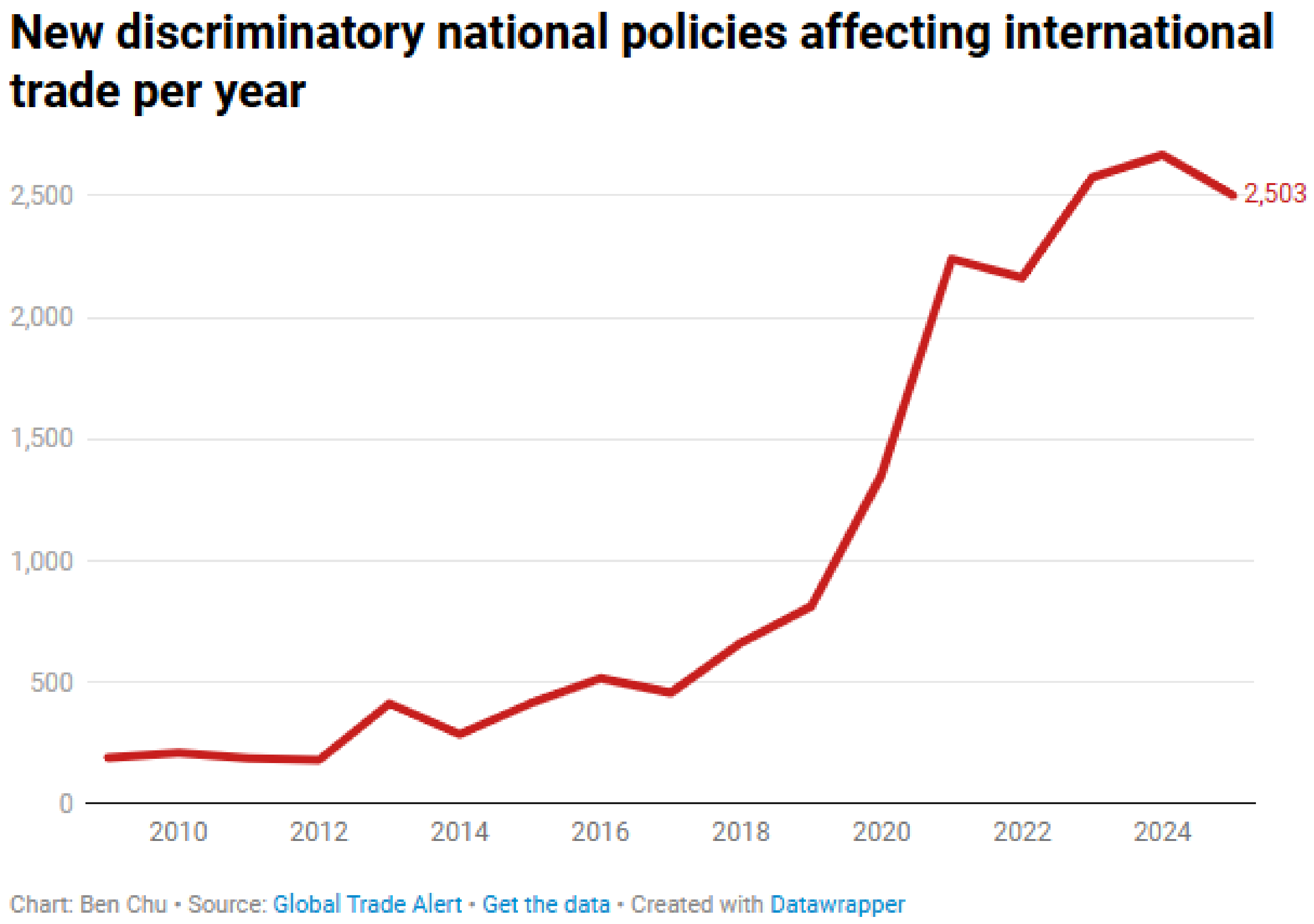
It’s not just about Trump’s return…



Xi Jinping

“The starting point for the struggle of the Chinese nation is self-reliance [zili gengsheng].”

26 October 2018

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Narendra Modi

“The state of the world today teaches us that a Atmanirbhar Bharat [self-reliant India] is the only path.”

12 May 2020

Rachel Reeves

- *“There must be red lines – things for which we should not rely on states whose interests conflict with our own.”*

- *“We want to make it easier to export and import.”*

19 March 2024

What does exile economics mean for global supply and value chains?

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What does exile economics mean for global supply and value chains?

- **Global supply chains** - firms sourcing goods and services from overseas

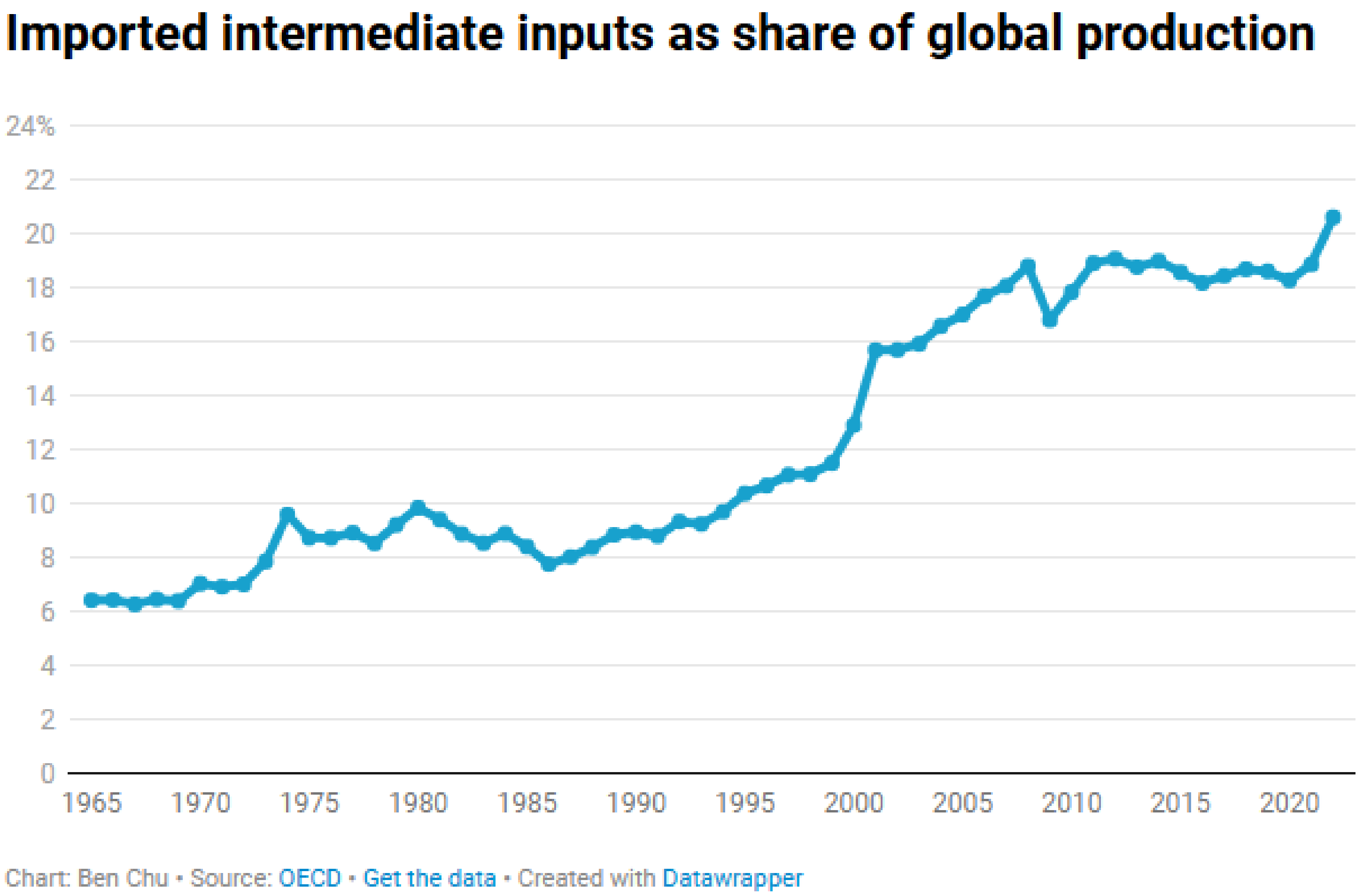
- **Global value chains** - value of the final product added in multiple different countries

Global value chains - in numbers

60% of global trade consists of **intermediate products** – goods and services that businesses use as inputs to be able to produce the final products sold to consumers

Source: OECD

Global value chains - still growing



Some key global value chains

1. Vaccines

1. Semiconductors

1. Food

1. Steel

1.Vaccine global value chains

Vaccines are genuinely global products…

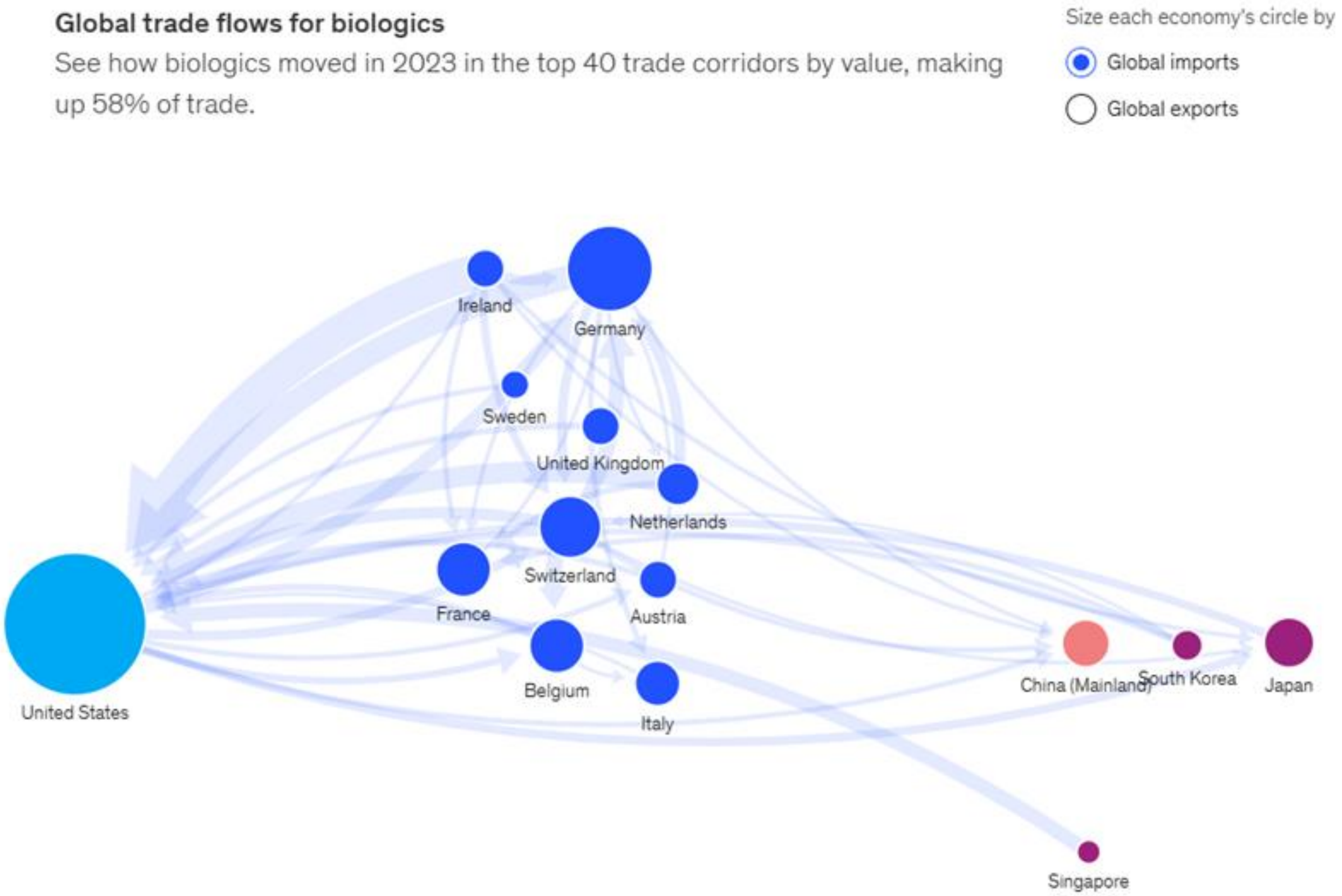
- Final vaccine production in **13 countries** - America, China, India, Japan, Switzerland, UK, France.

- The Pfizer/BioNTech Covid vaccine - **280 ingredients** sourced from **19 different countries.**

- Typical vaccine plant - **9,000 different materials**, sourced from **300 suppliers**, across **30 countries.**

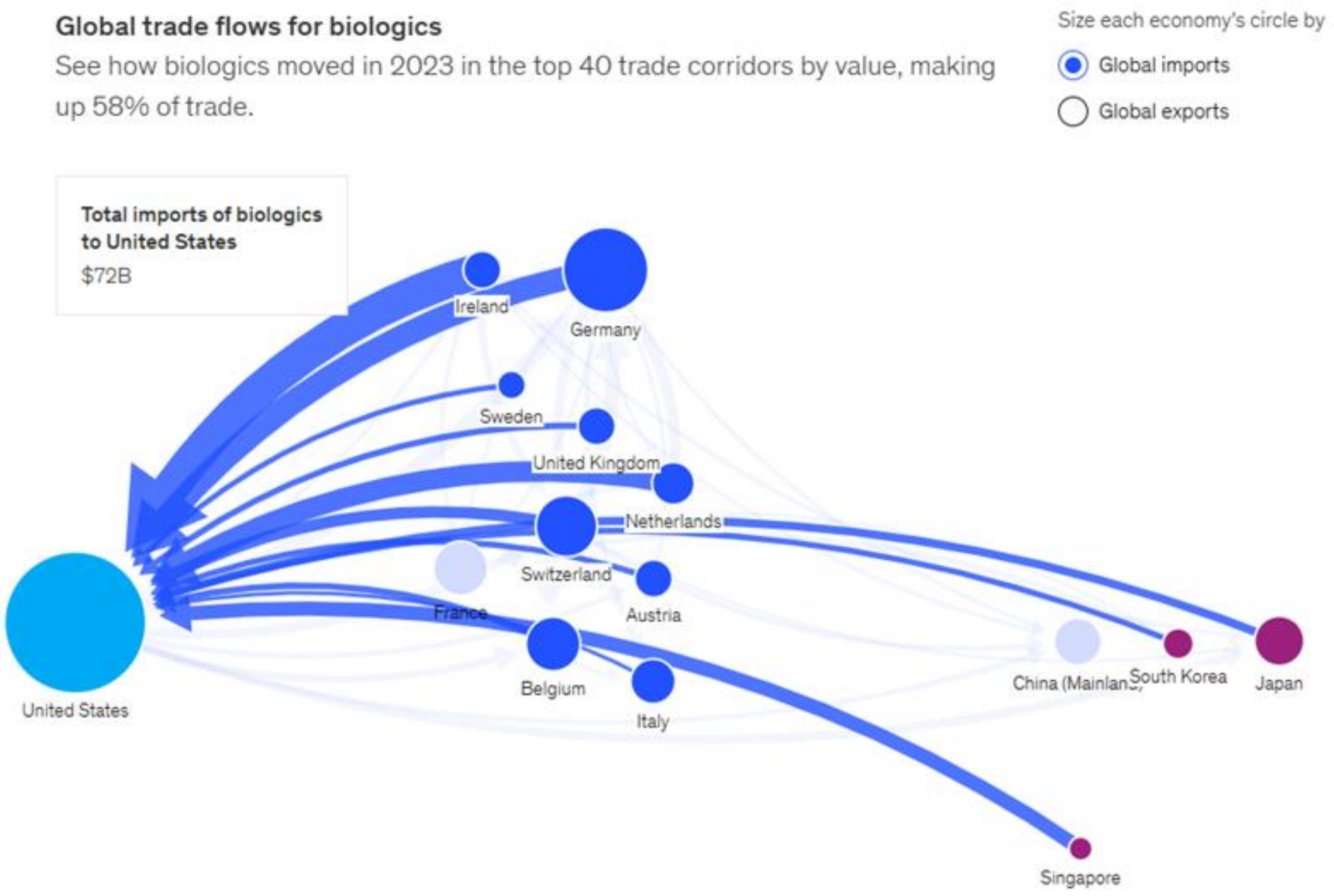
Source: IFPMA/CEPI

…with key ingredients for vaccines coming from many different countries…



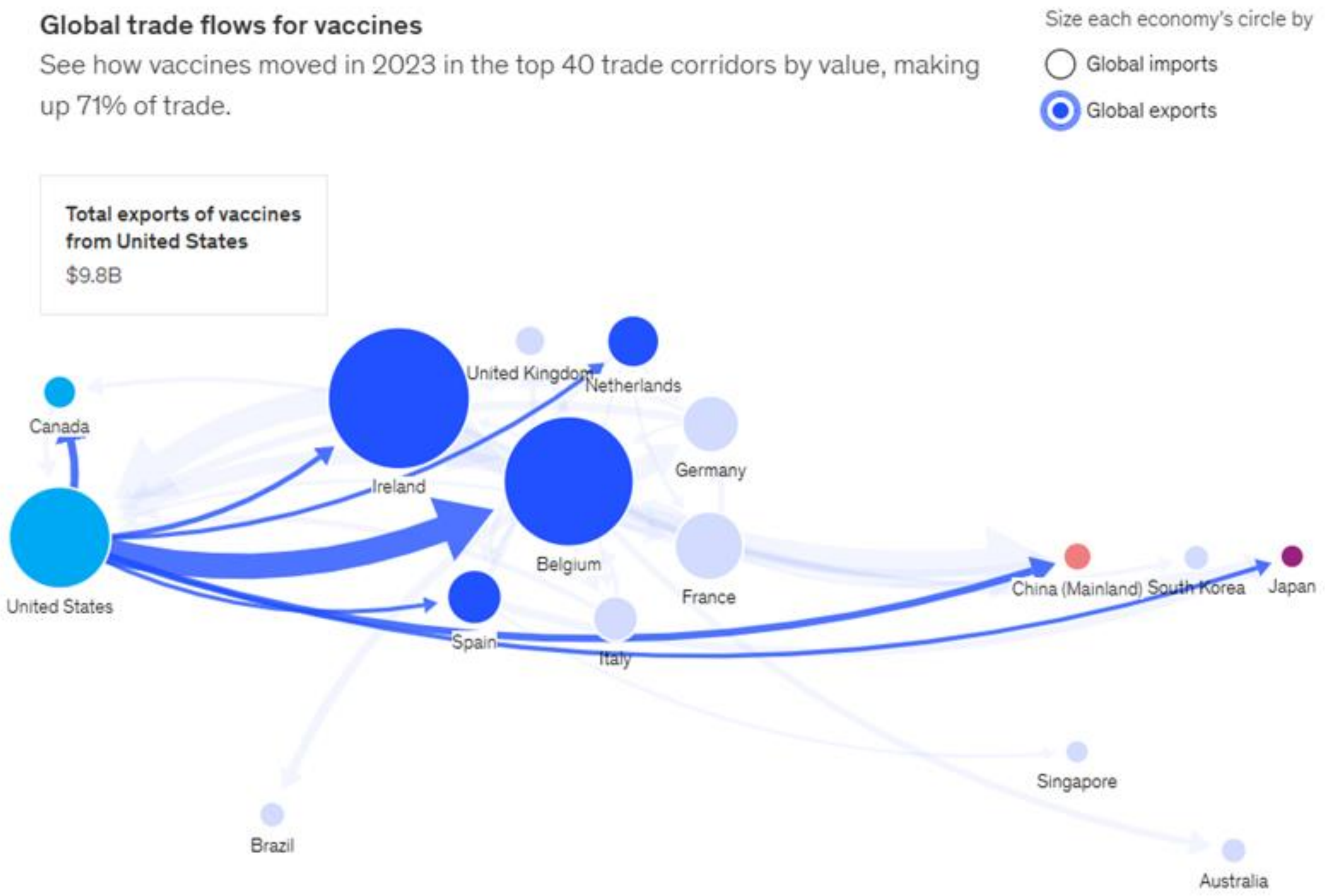
Source: McKinsey Global Institute, Global Trade Explorer

…Many of the vaccine ingredients go to the US…



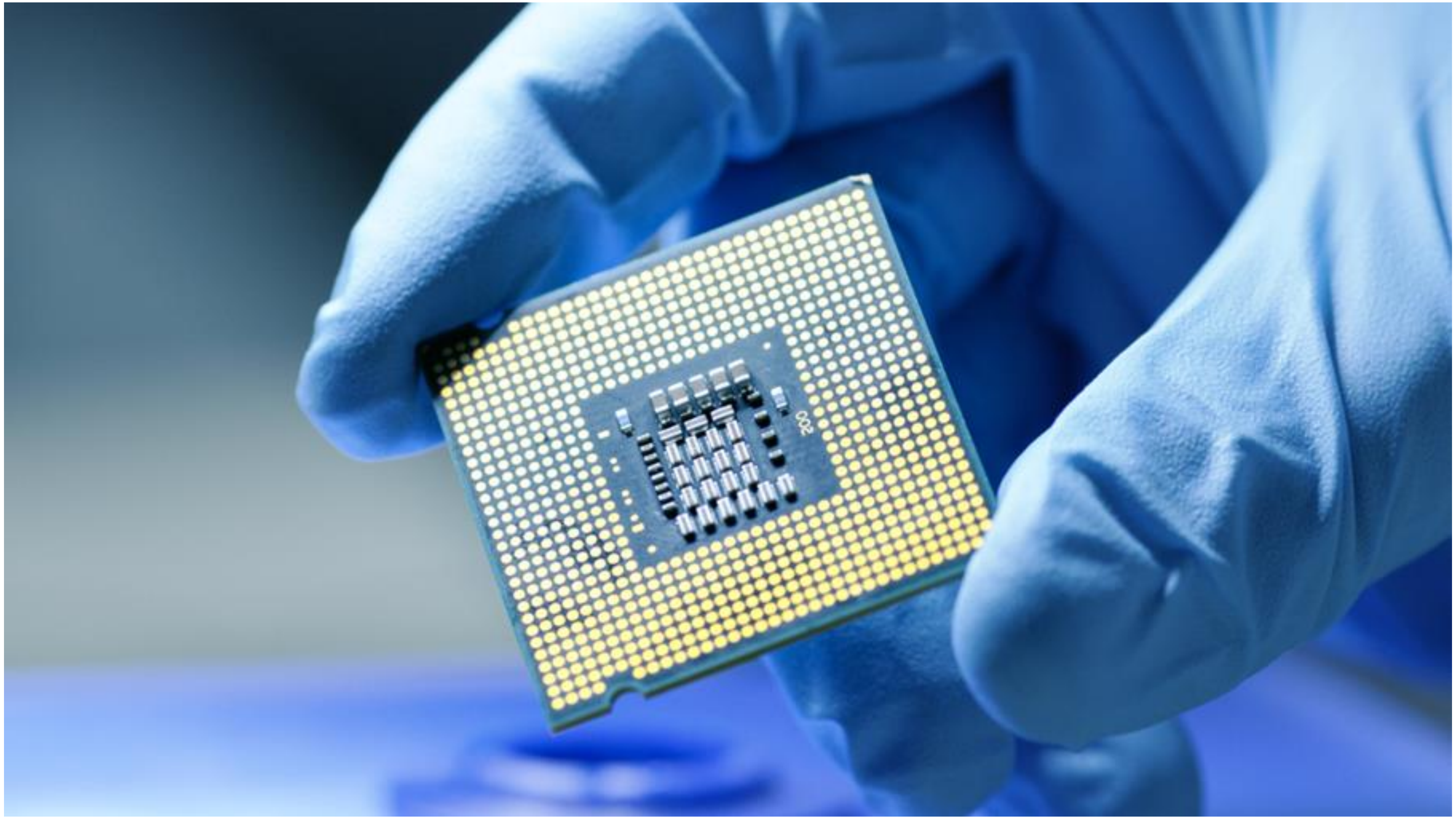
Source: McKinsey Global Institute, Global Trade Explorer

…but the US also exports many vaccines.



Source: McKinsey Global Institute, Global Trade Explorer

2. Semiconductor global value chains



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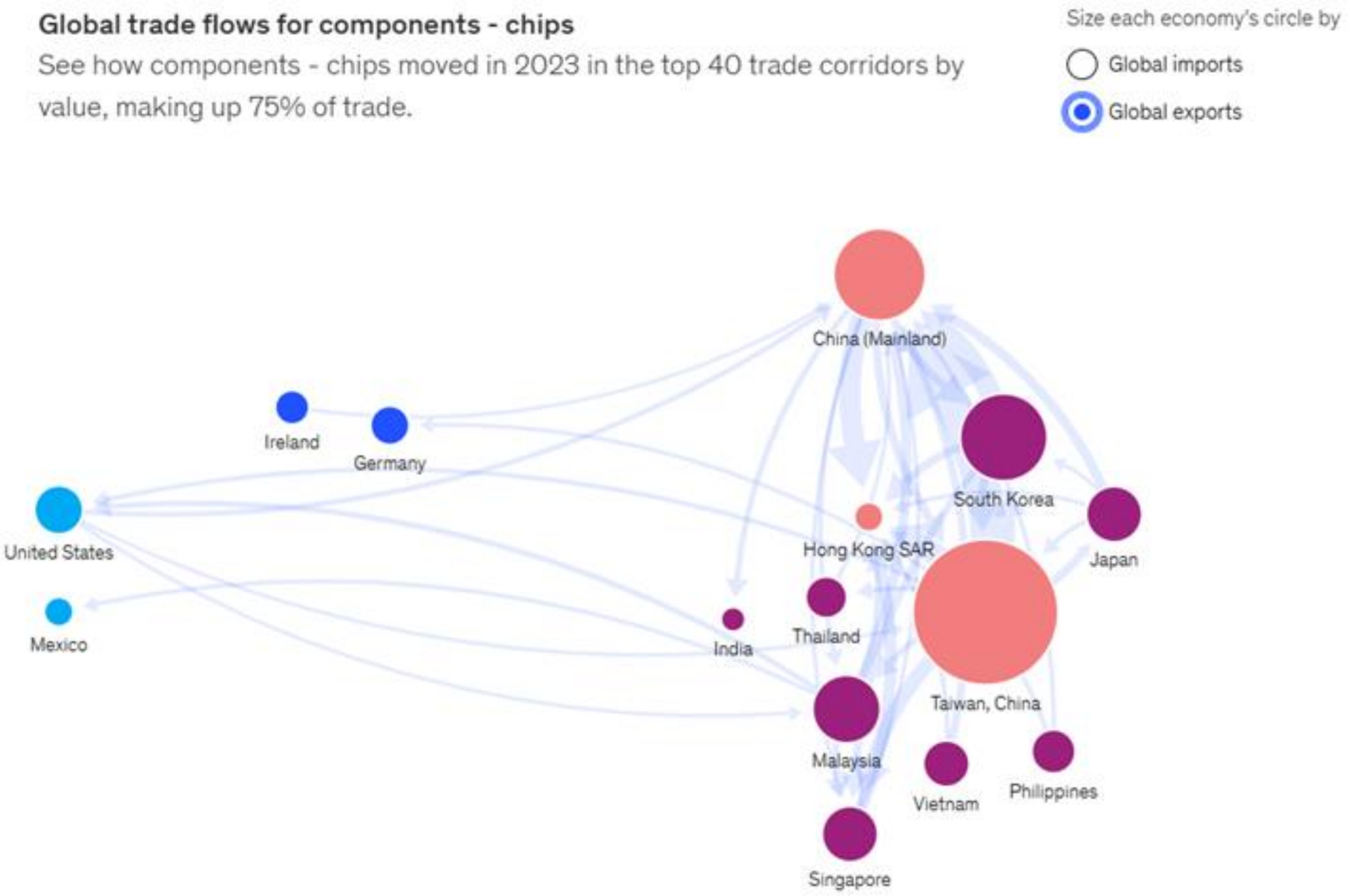
The production of semiconductors is another truly global effort….

- Single chip can cross international borders more than **70 times** in manufacturing process.

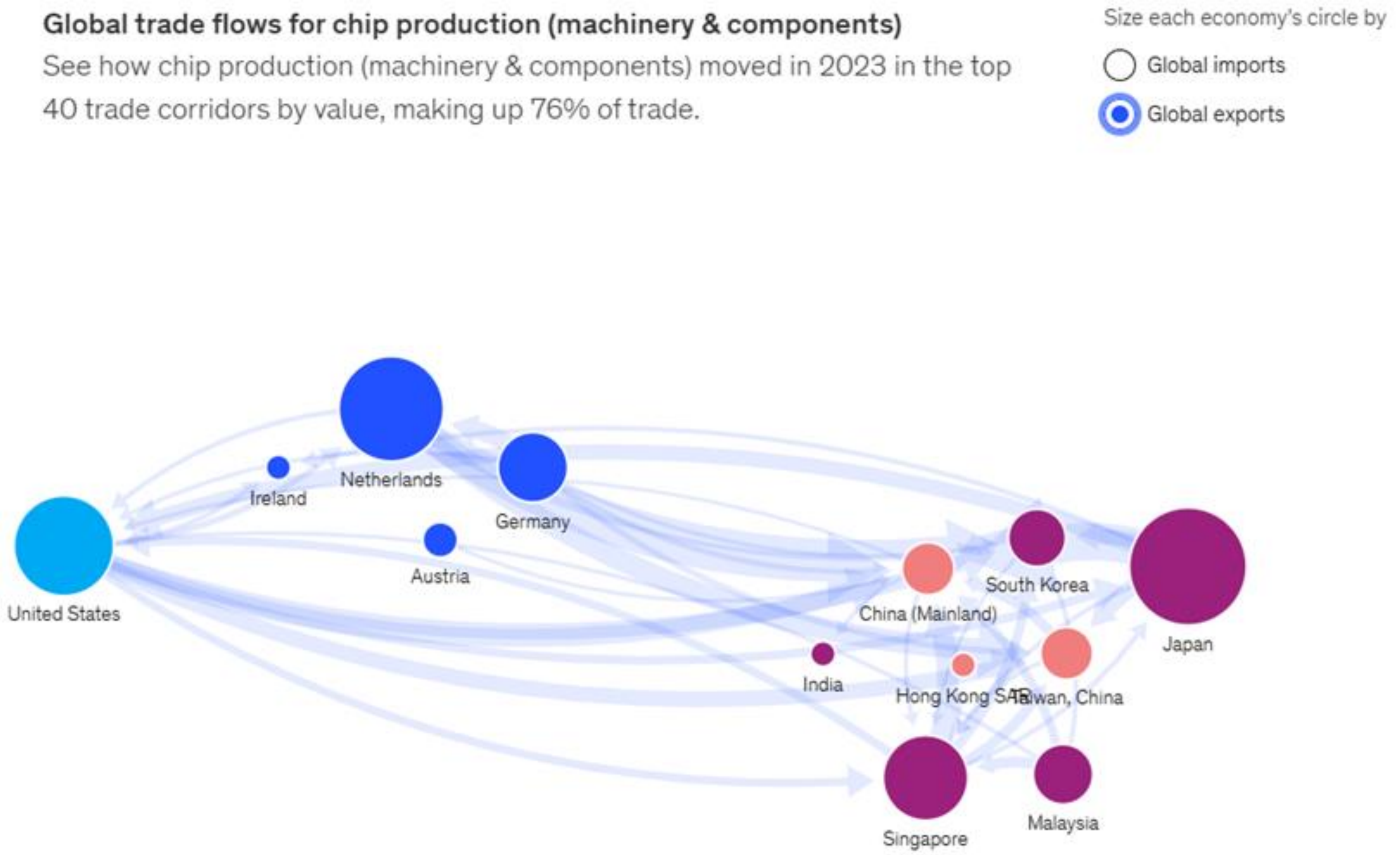
- Critical raw materials - **ultra pure quartz, silicon, neon gas, tungsten** - sourced from across the world, including the US, China, Congo, Japan and South Korea.

Most chips are finally produced in Asia…



Source: McKinsey Global Institute, Global Trade Explorer

…but much of the machinery to make chips is itself made in Europe and the US.



Source: McKinsey Global Institute, Global Trade Explorer

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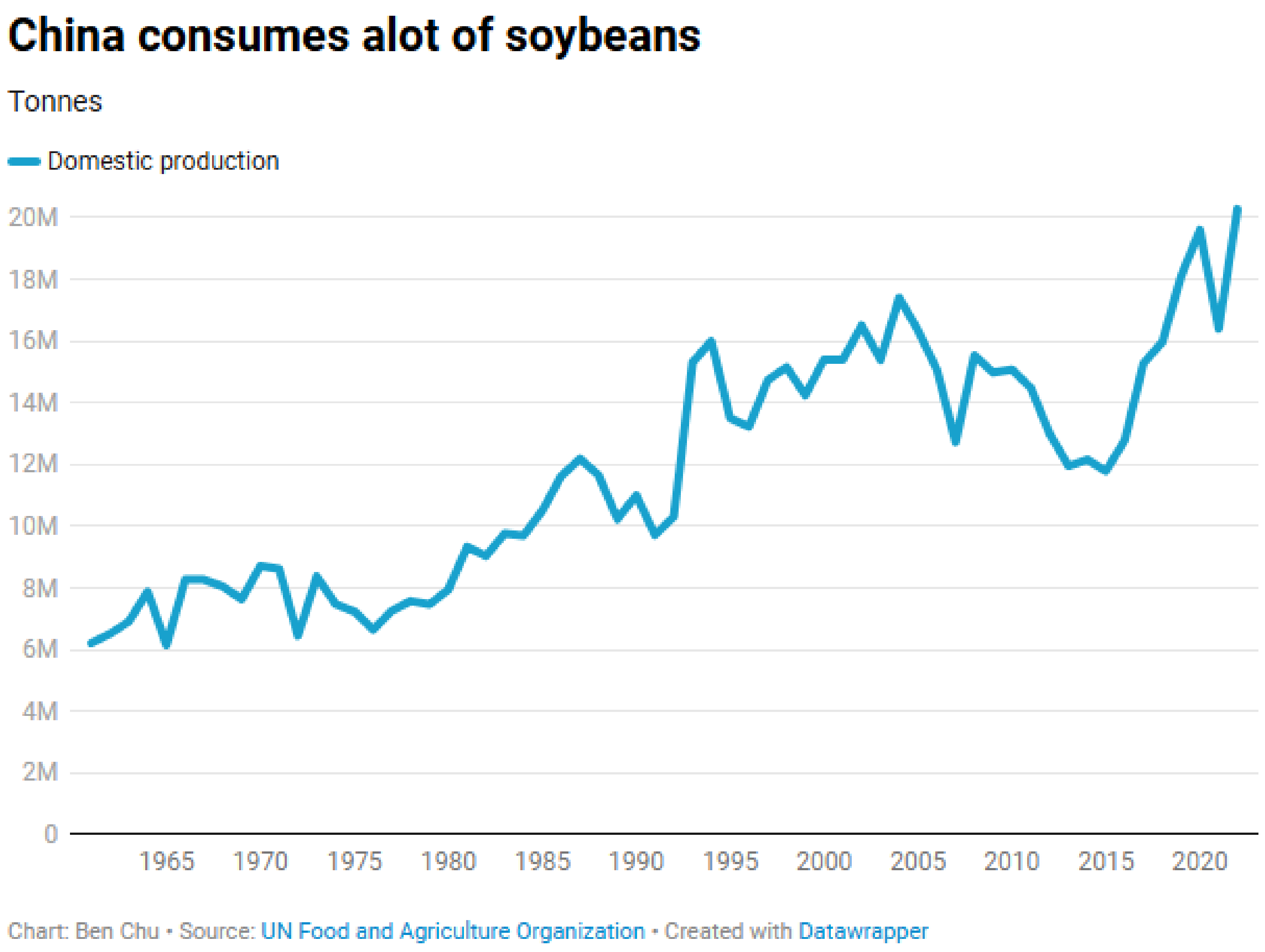
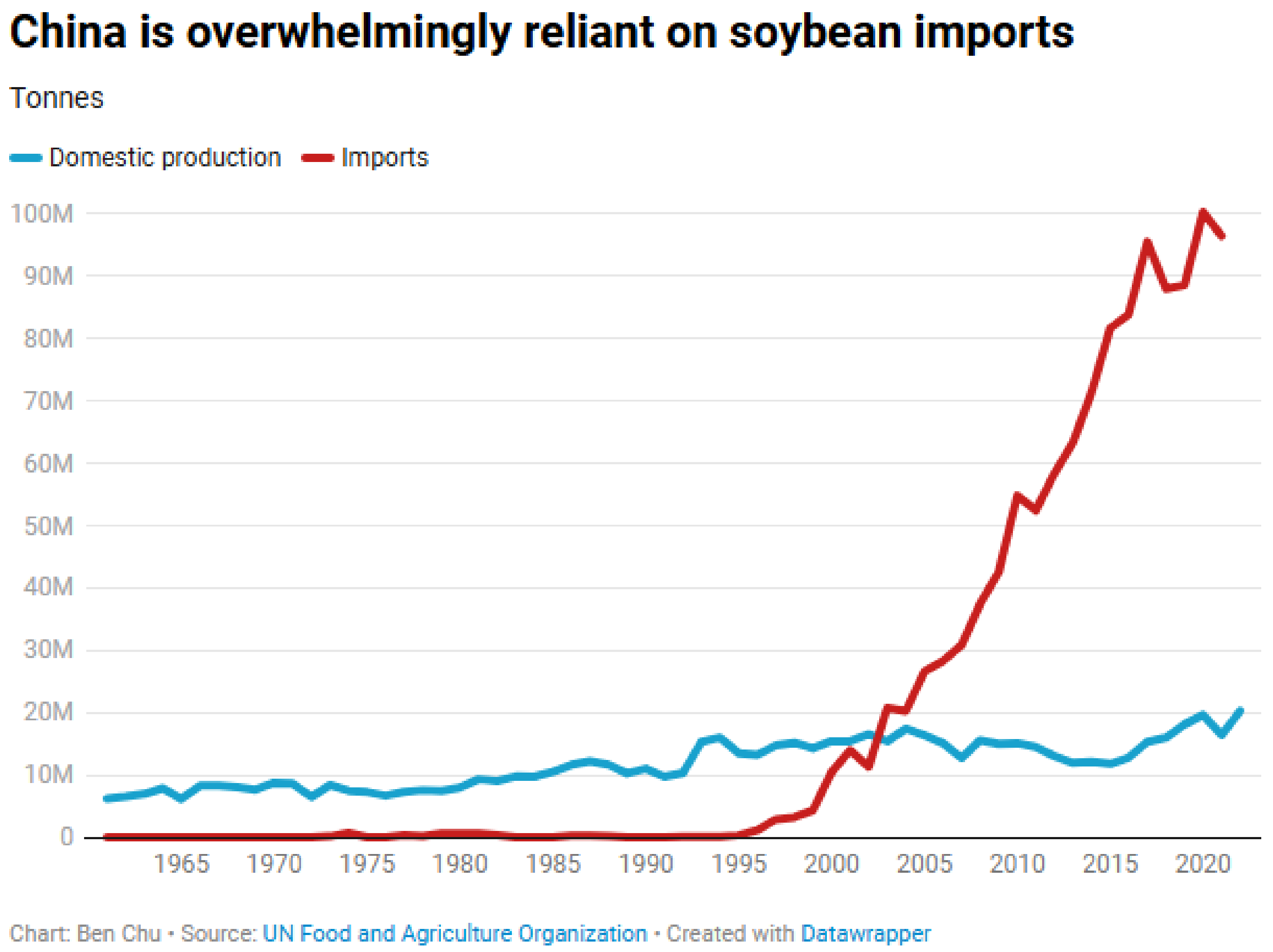
3. Food global value chains

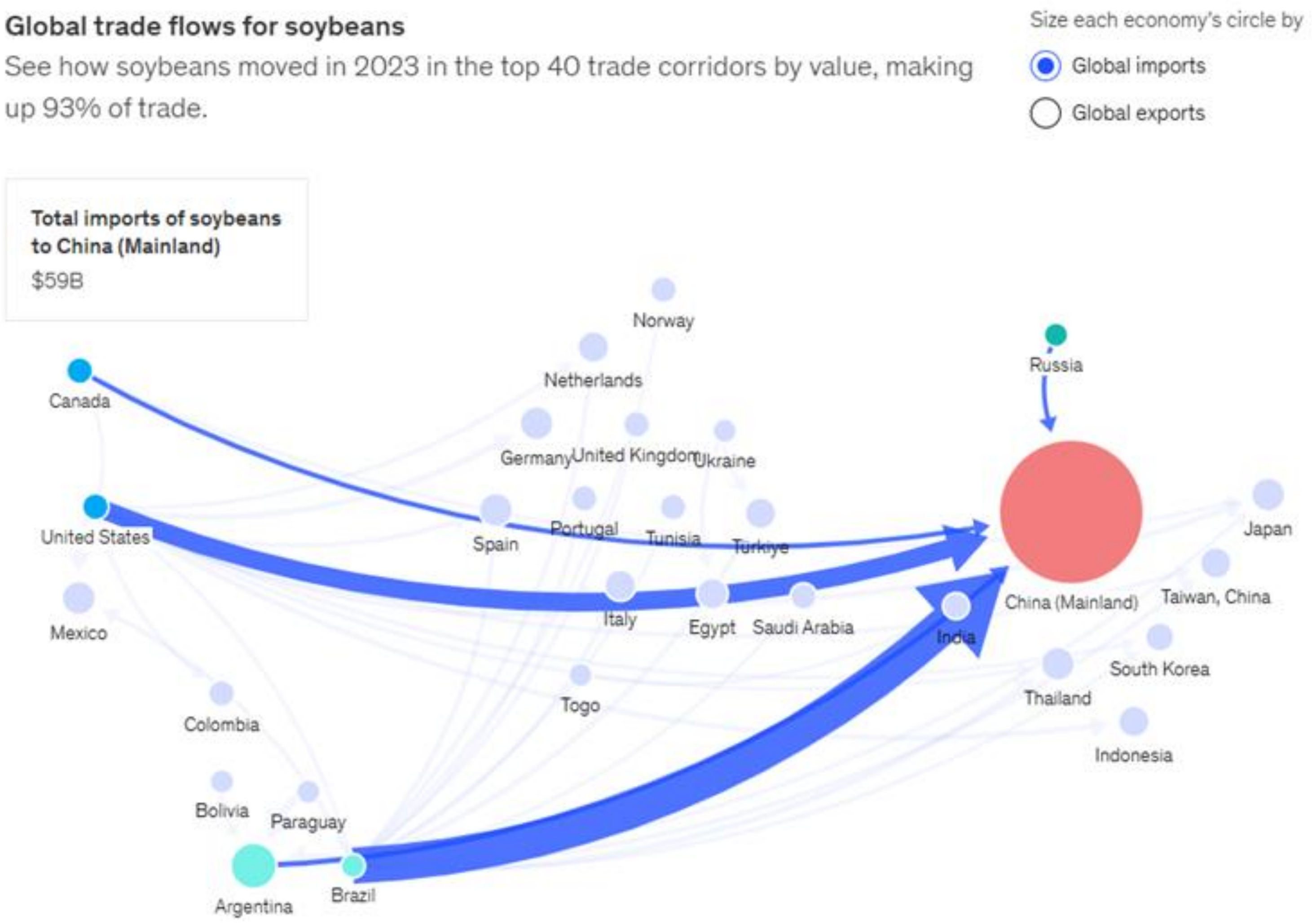
Soybeans are vital for Chinese meat production…



…but most of China's soybeans are imported…

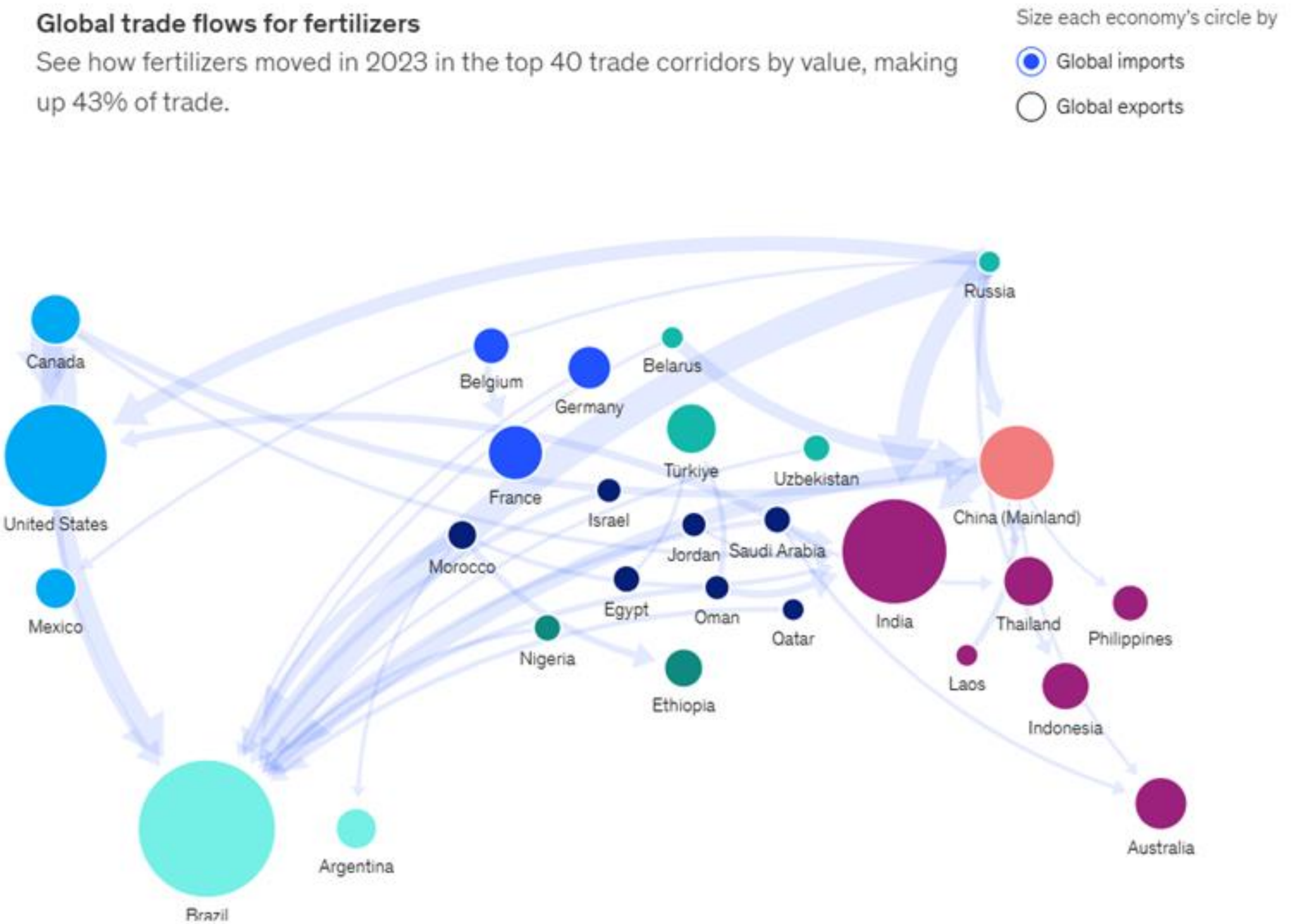


…and most of China's soybeans come from the Americas…



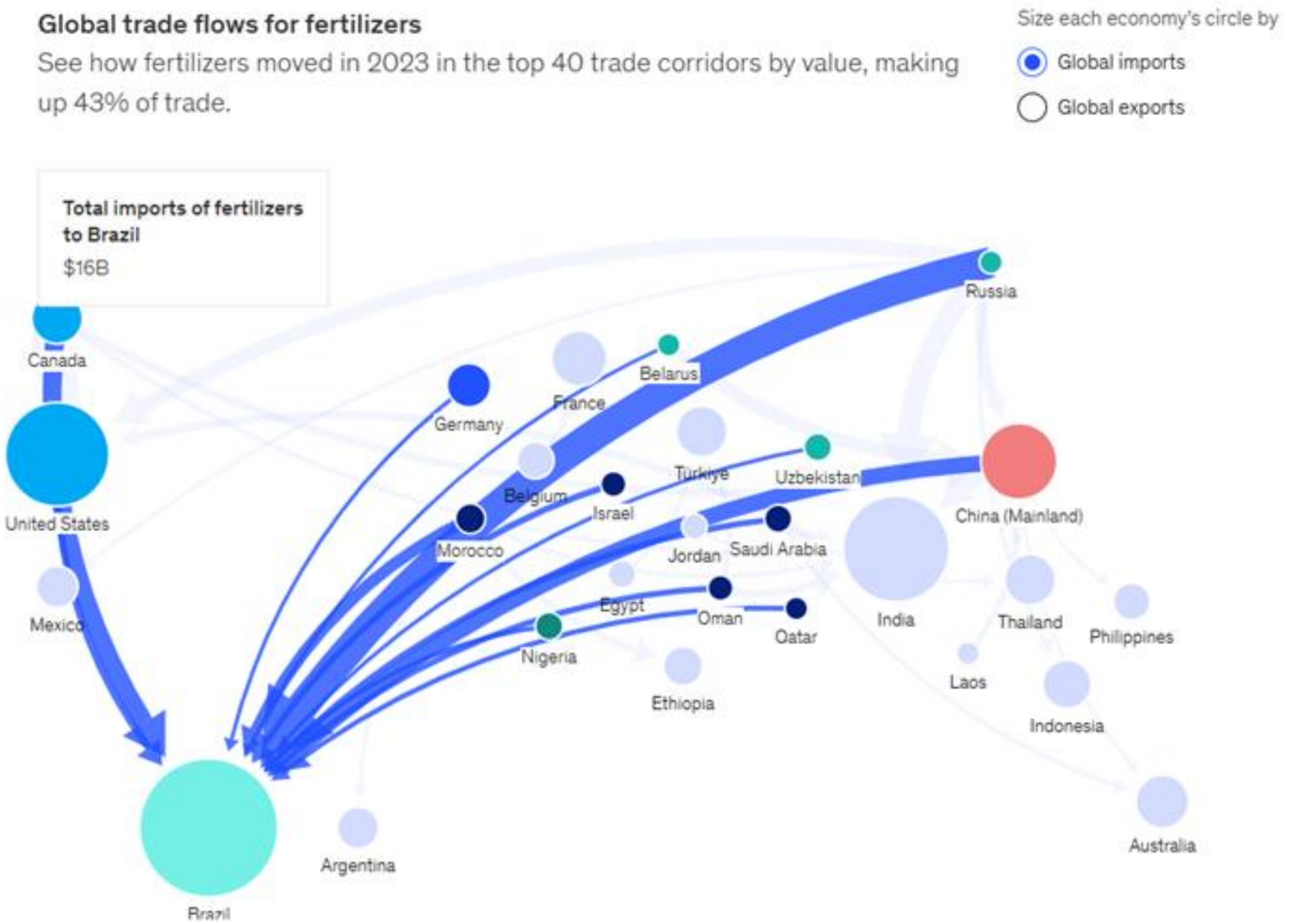
Source: McKinsey Global Institute, Global Trade Explorer

…but global agriculture relies on fertiliser imports…



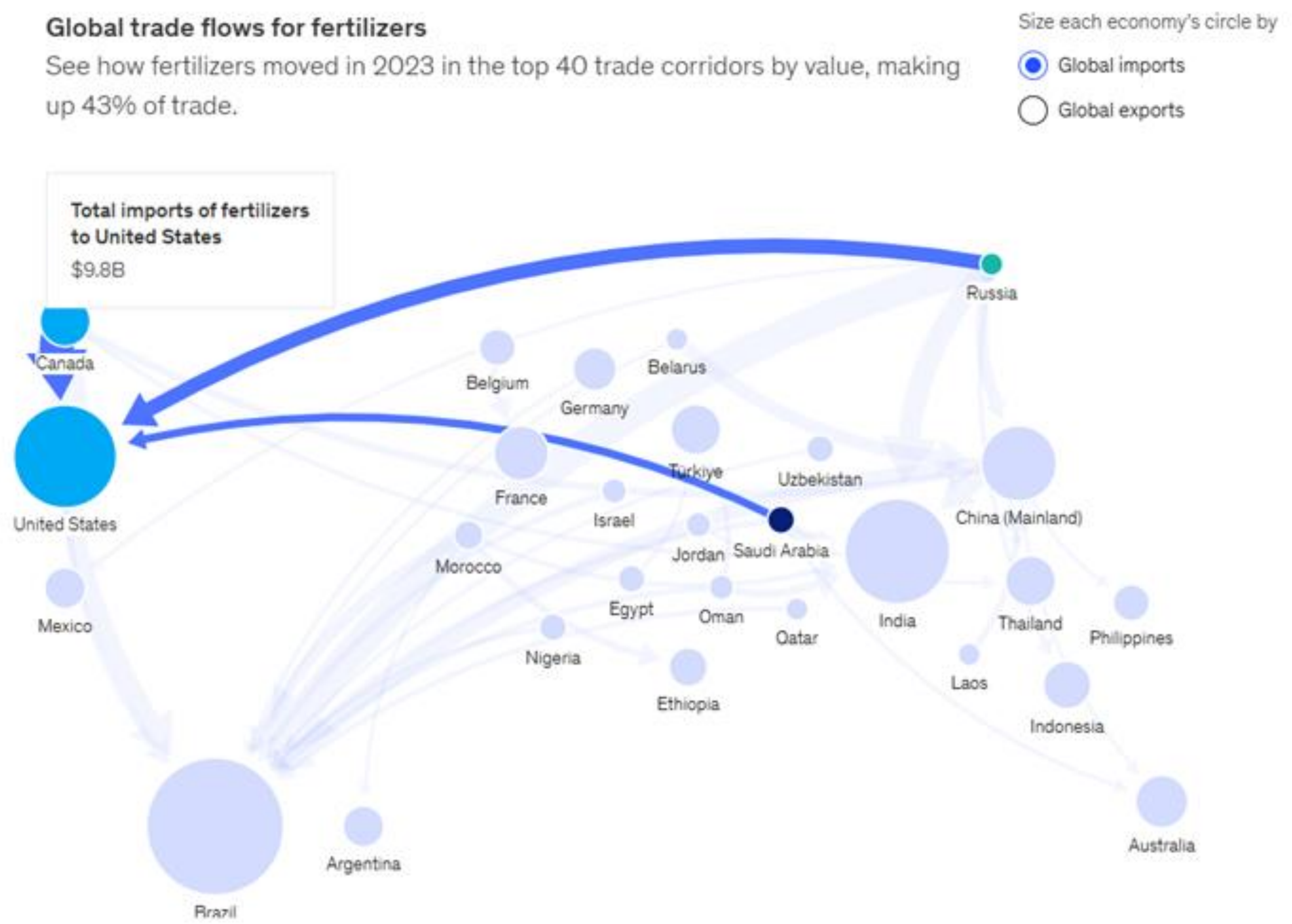
Source: McKinsey Global Institute, Global Trade Explorer

…especially Brazil…



Source: McKinsey Global Institute, Global Trade Explorer

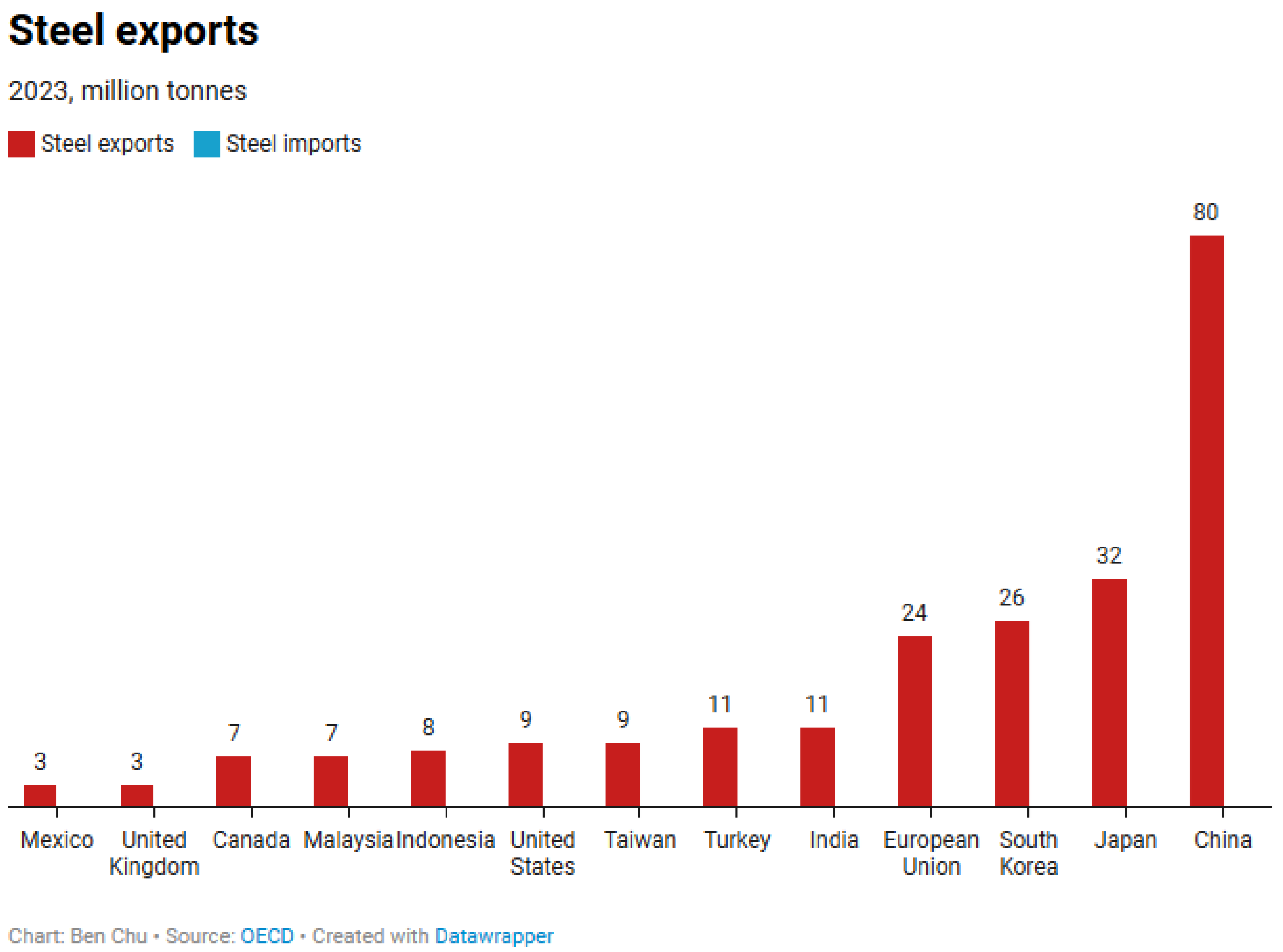
…but even the United States.



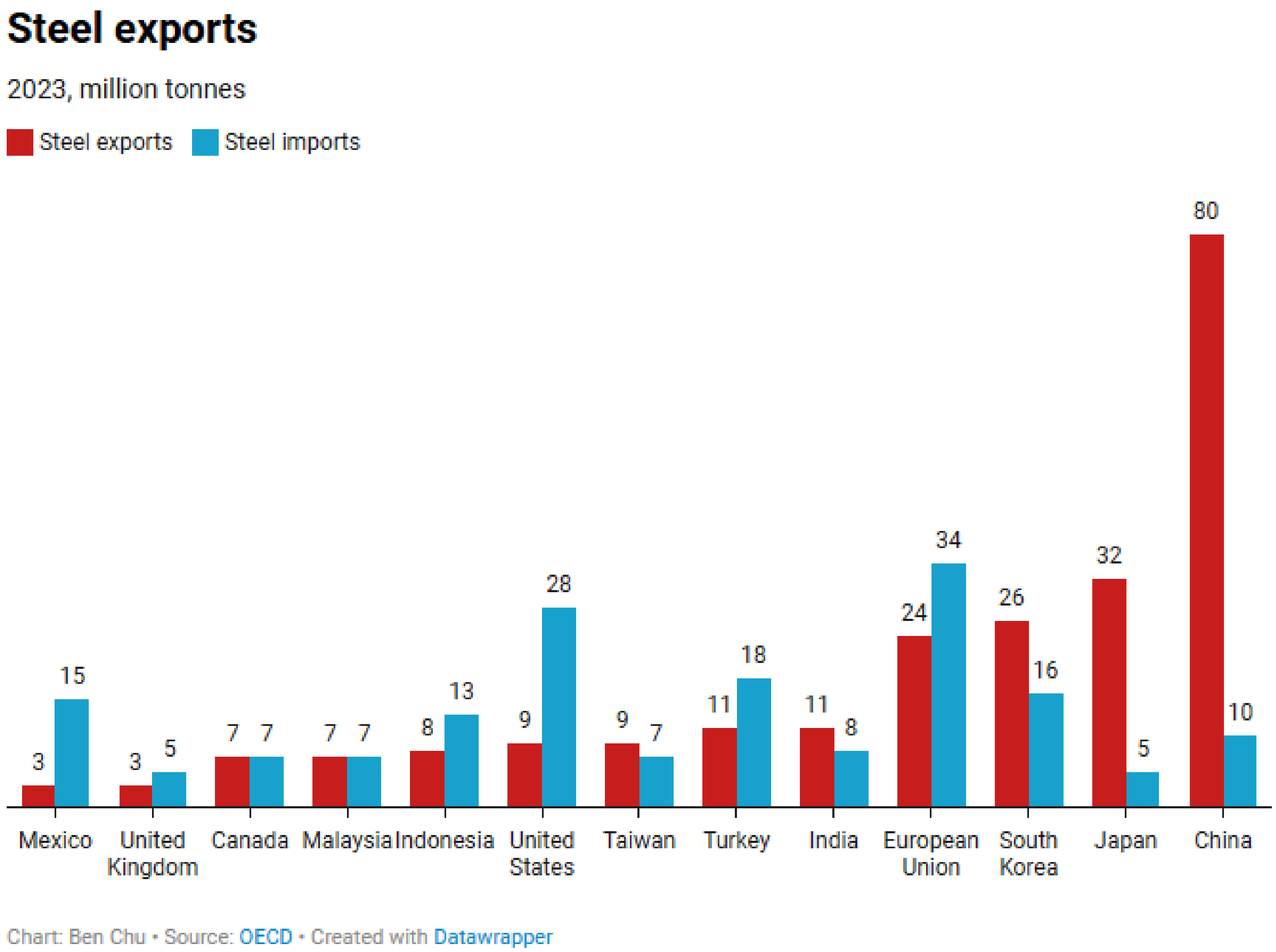
Source: McKinsey Global Institute, Global Trade Explorer

4. Steel global value chains

Some countries export a lot of steel…



…but even major steel exporters are also steel importers…



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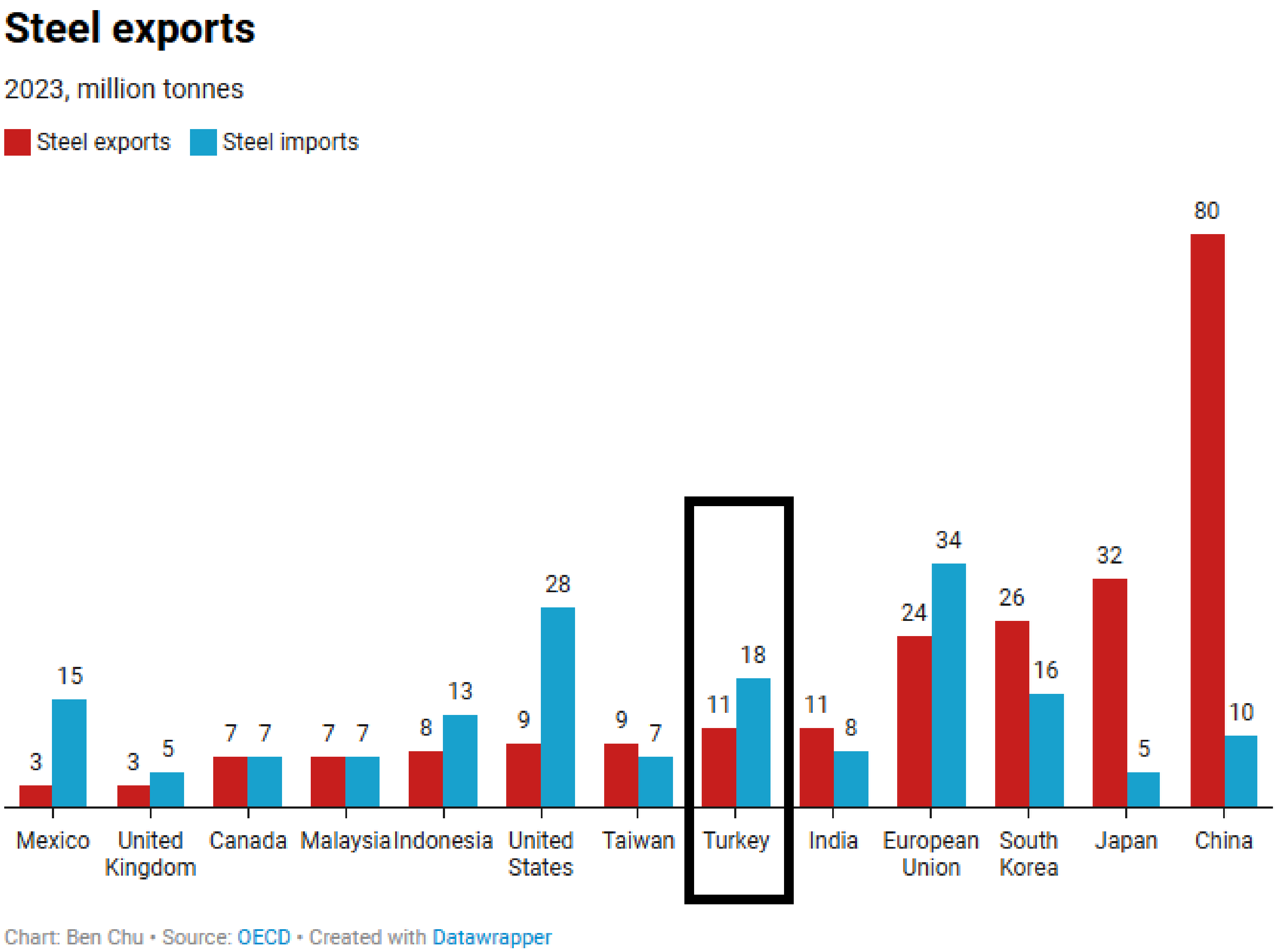
…Turkey is a big steel exporter and importer…



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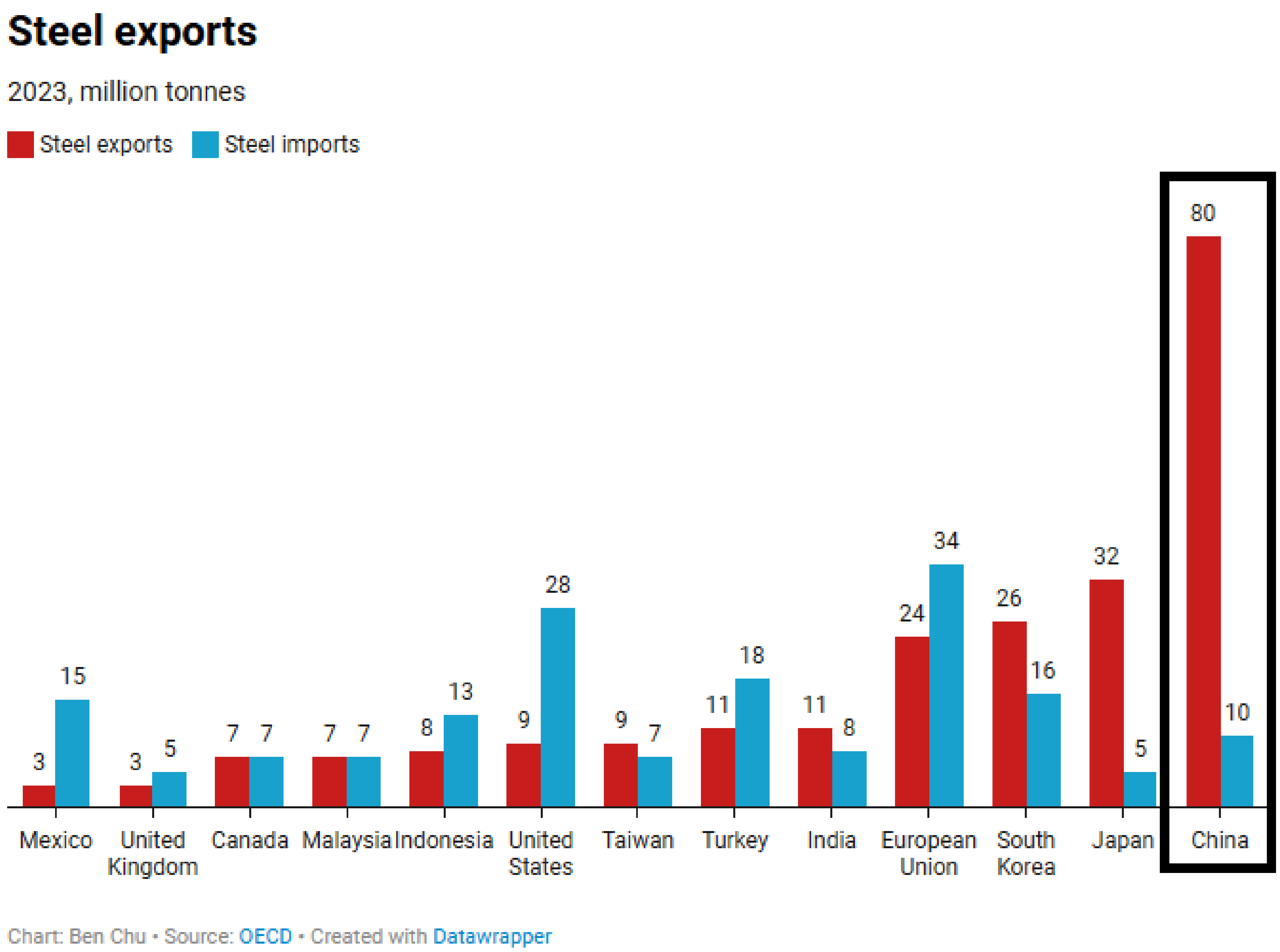
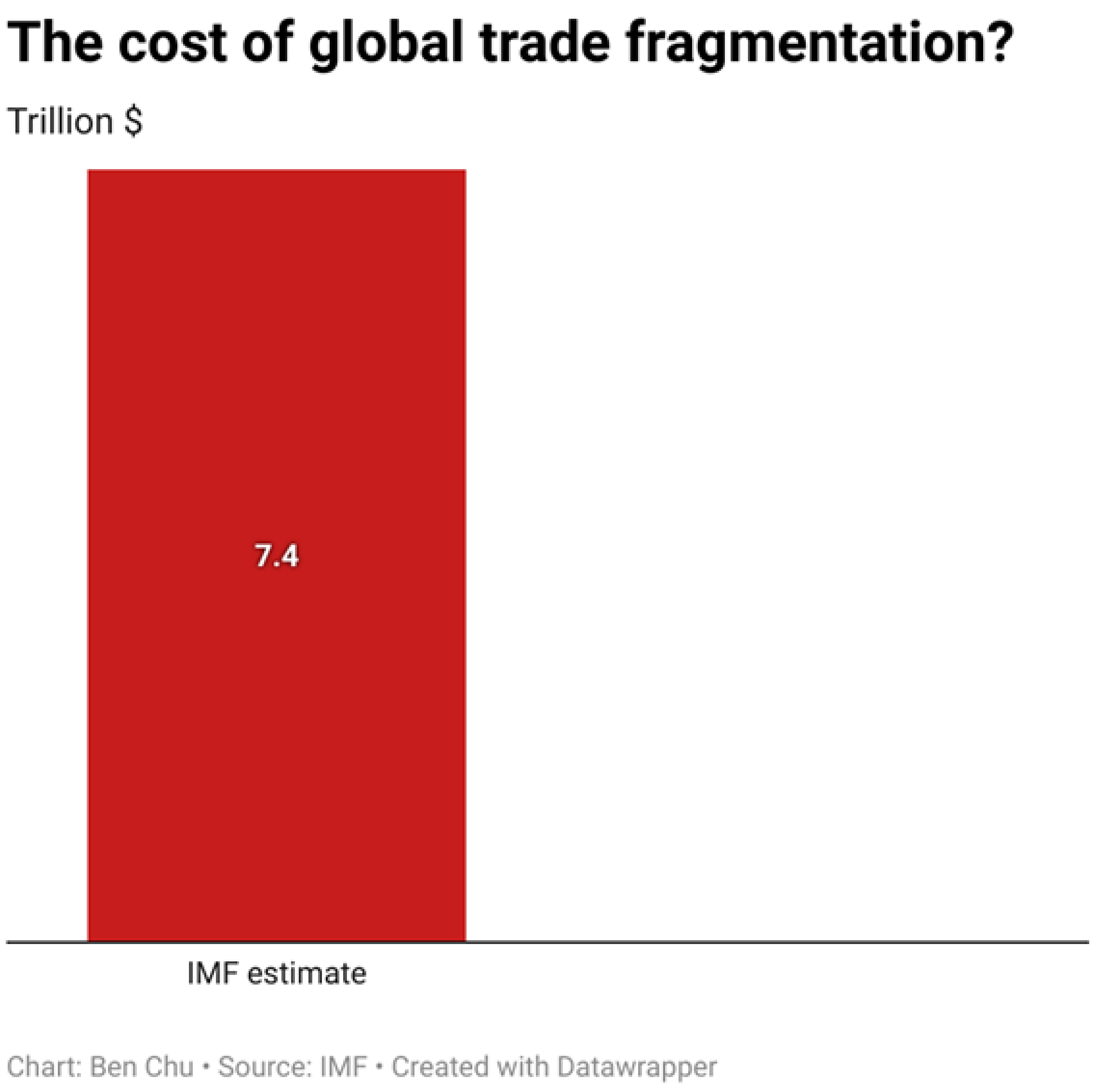
…even China is still a steel importer.



The potential economic damage

7% of global GDP…



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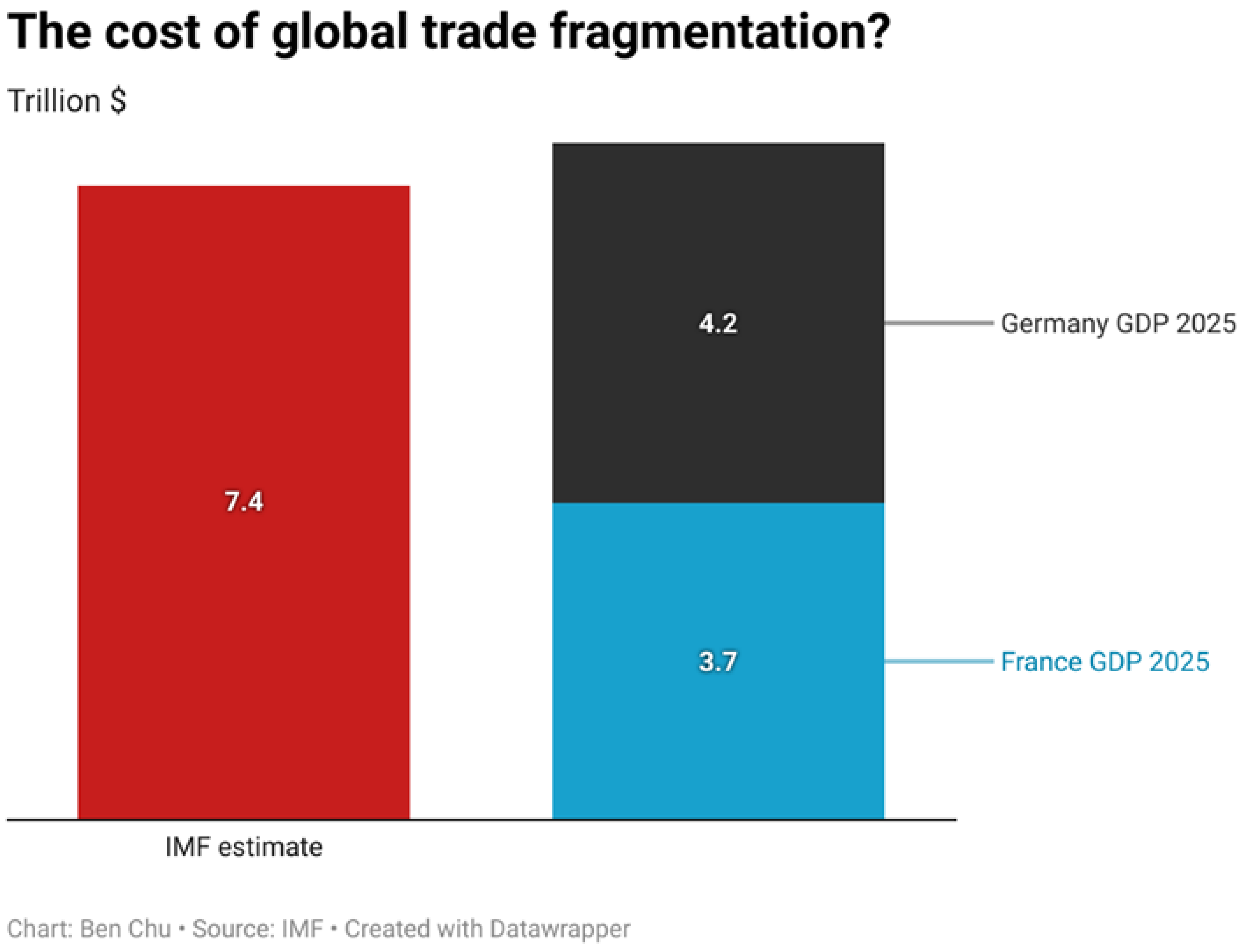
…equivalent to losing the annual output of France and Germany…



Where does it leave the UK?

Created with Datawrapper

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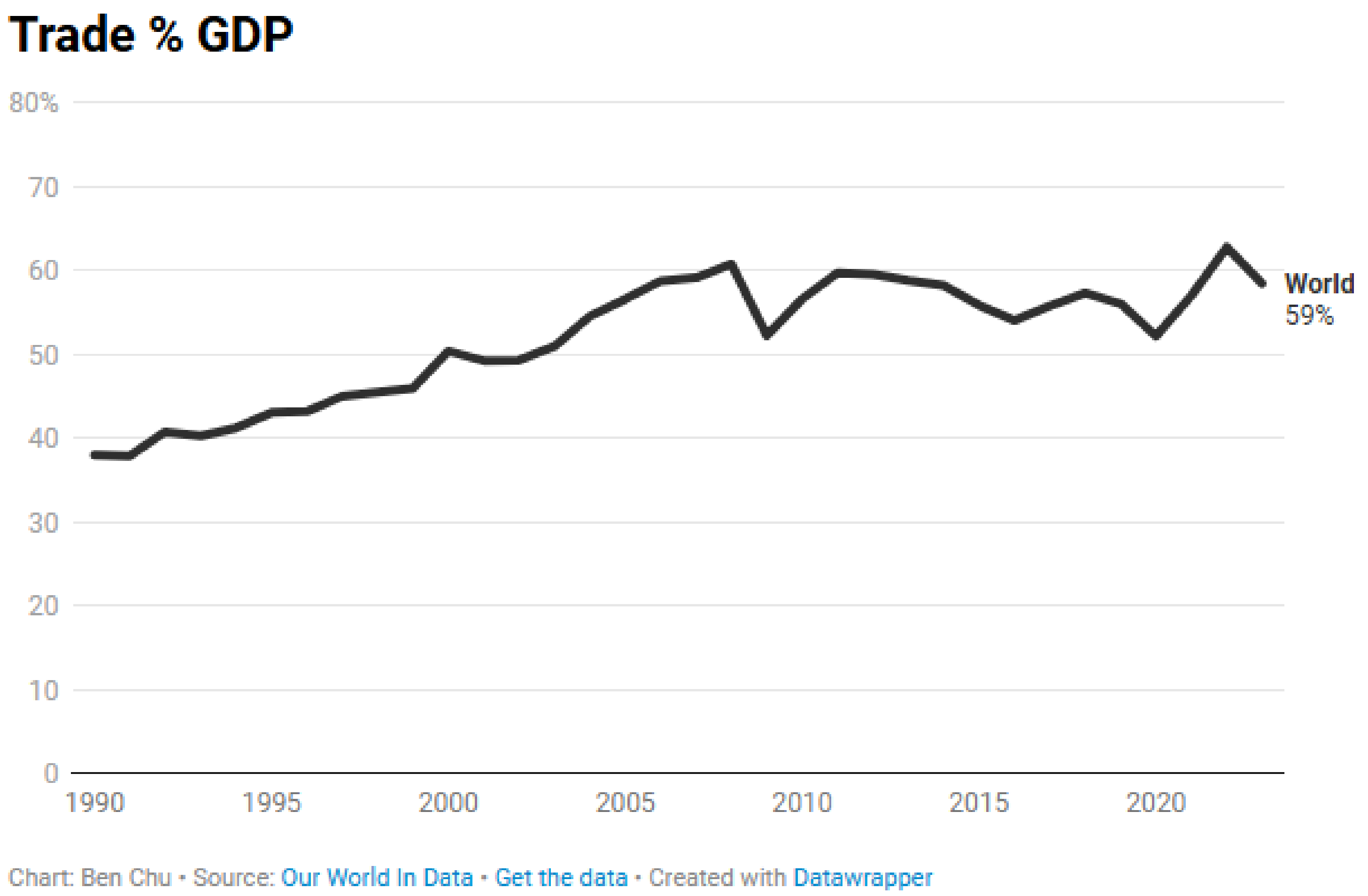
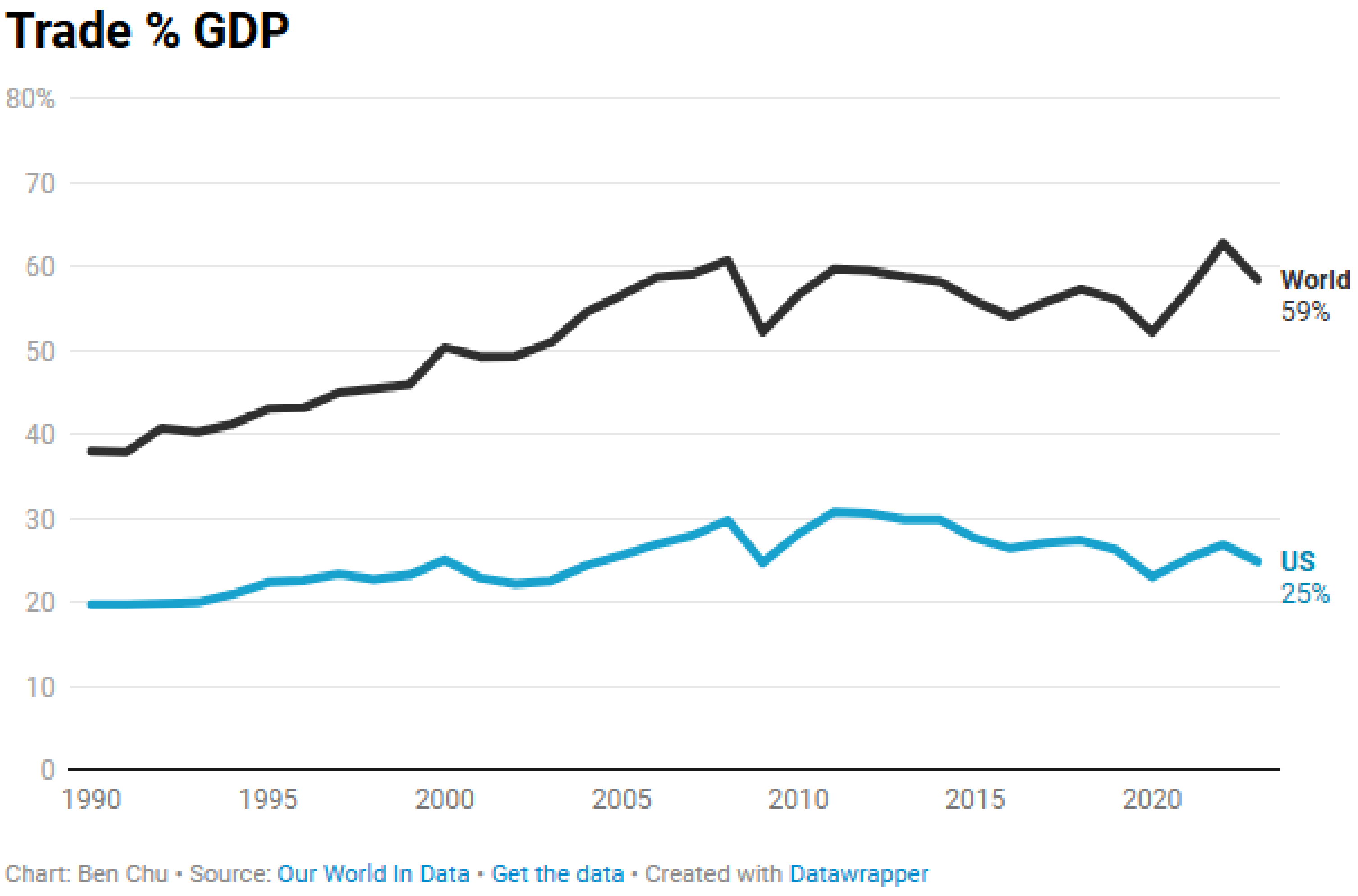
The importance of global trade…



The US is less reliant on trade than the global average…



…the same is now true of China…

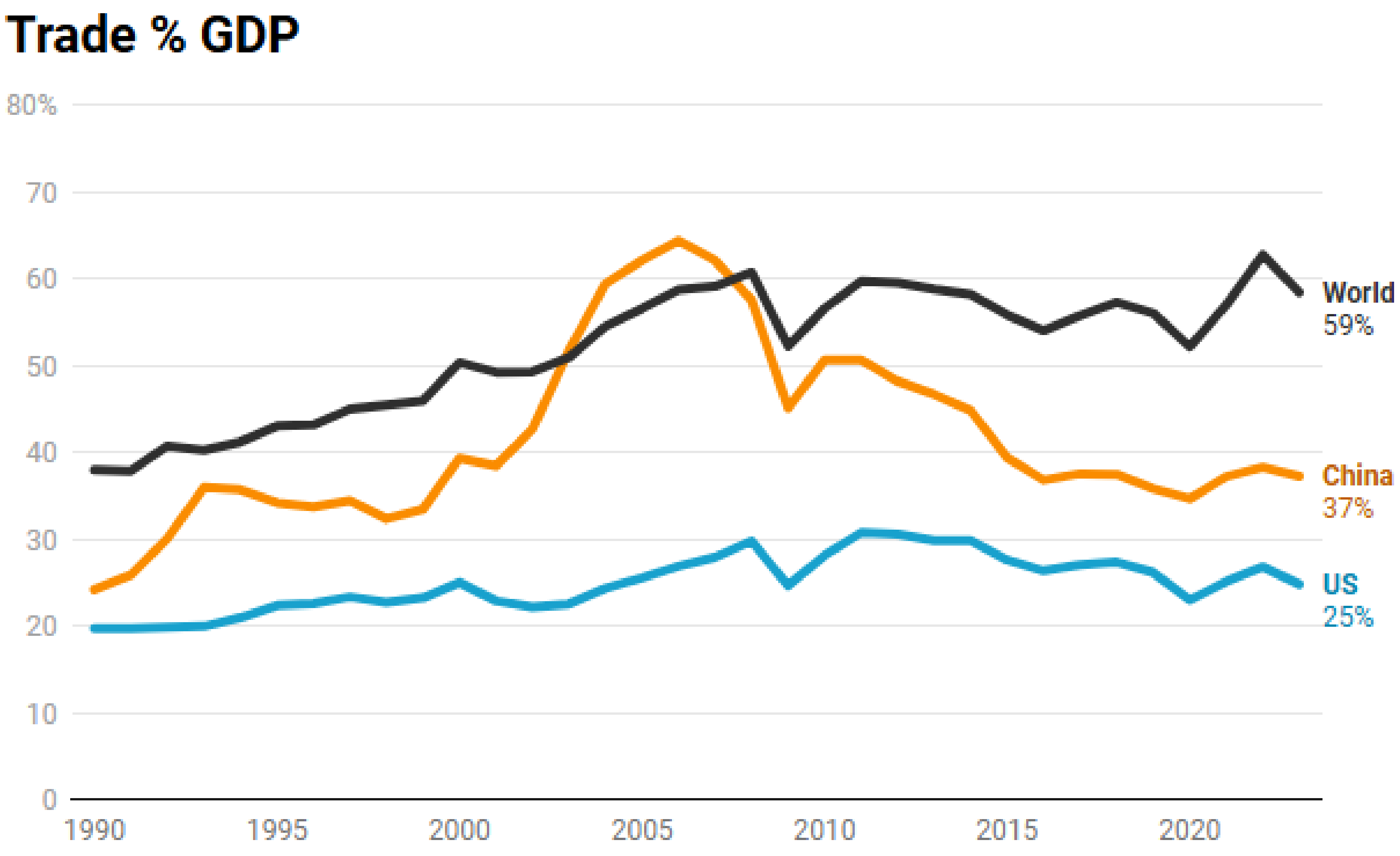


Chart: Ben Chu • Source: Our World In Data • Get the data • Created with Datawrapper

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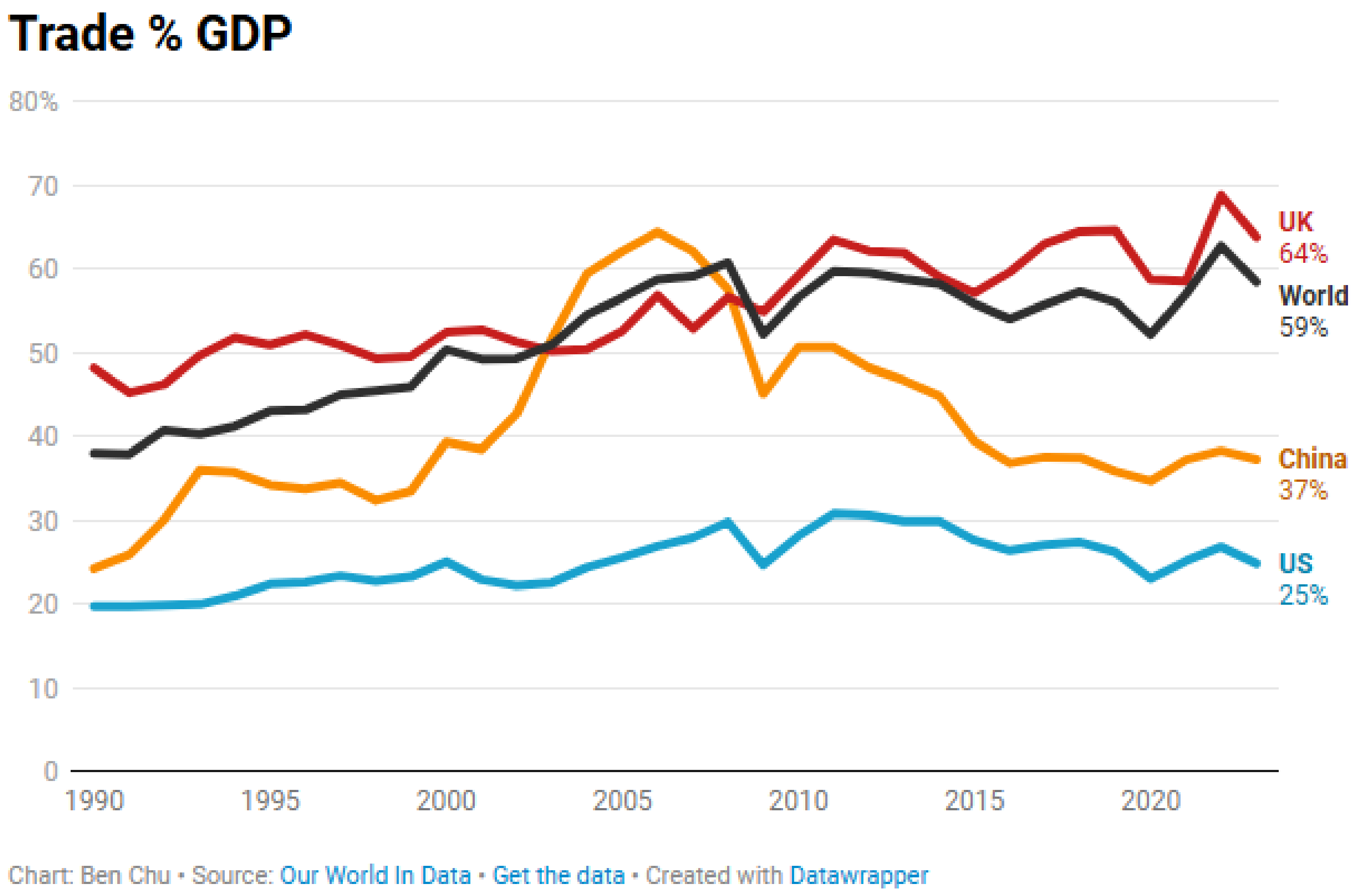
…but the UK is more reliant than the global average.

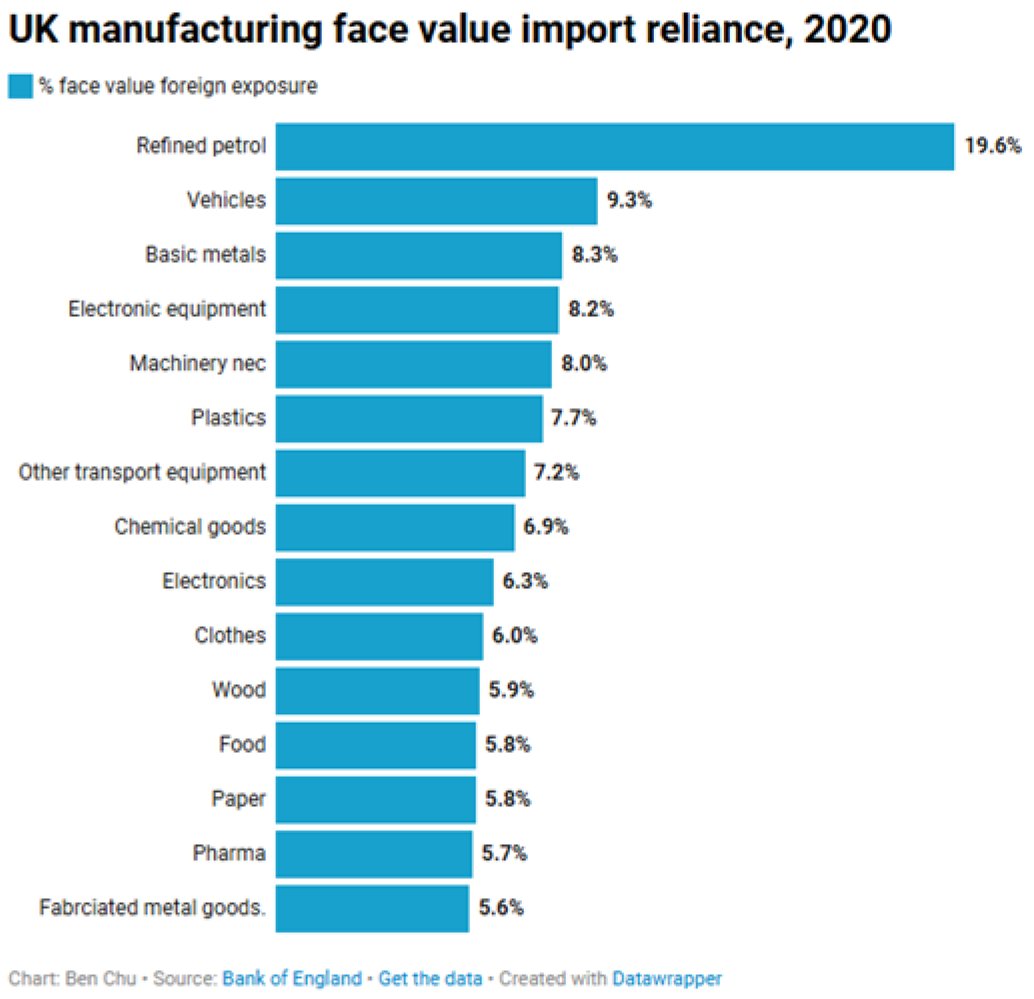


It comes down to those global value chains…

Roughly **half** of total UK production comes from the sourcing and sales of intermediate inputs.

Source: Bank of England

UK manufacturing's face value reliance on imported components is considerable…



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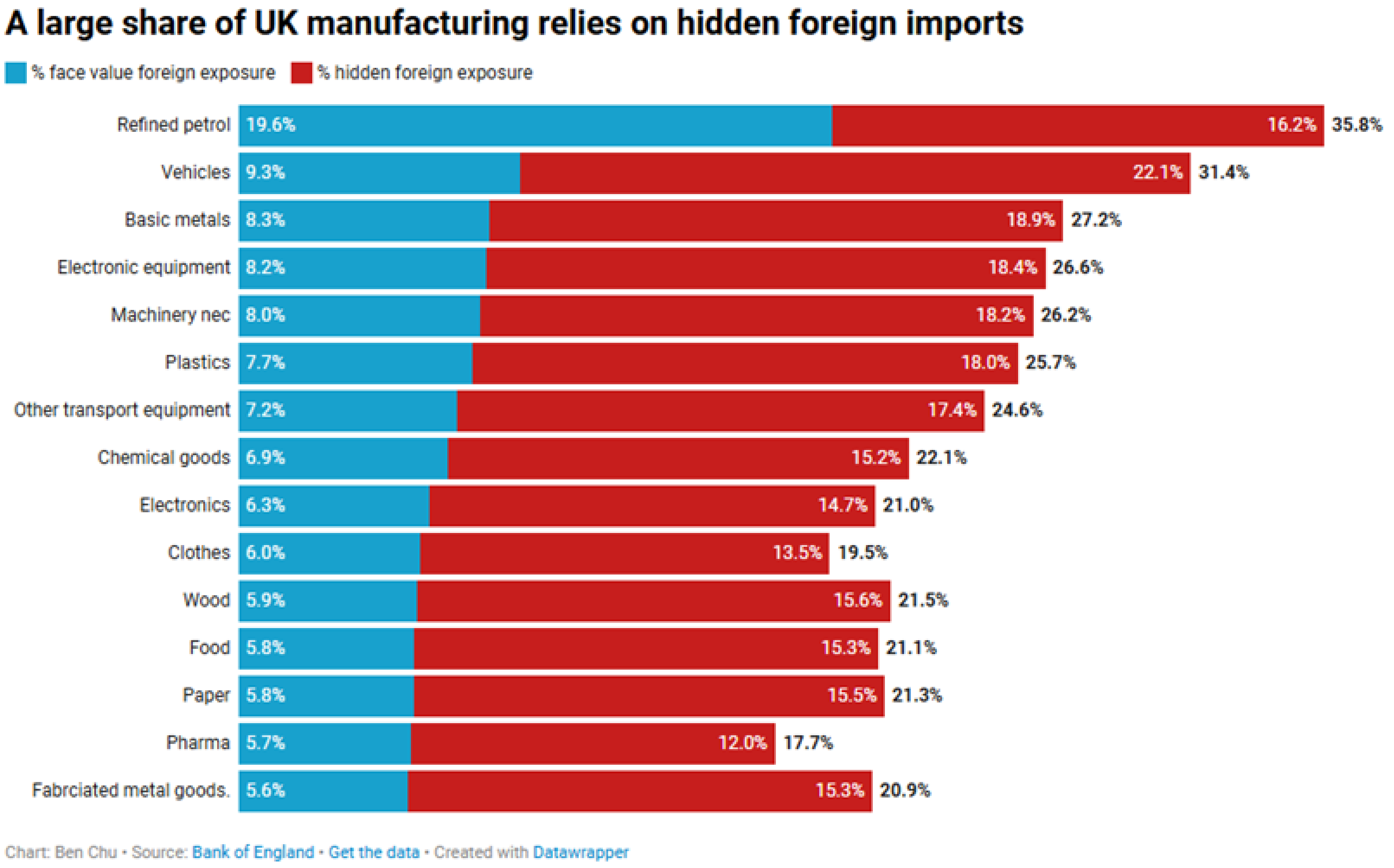
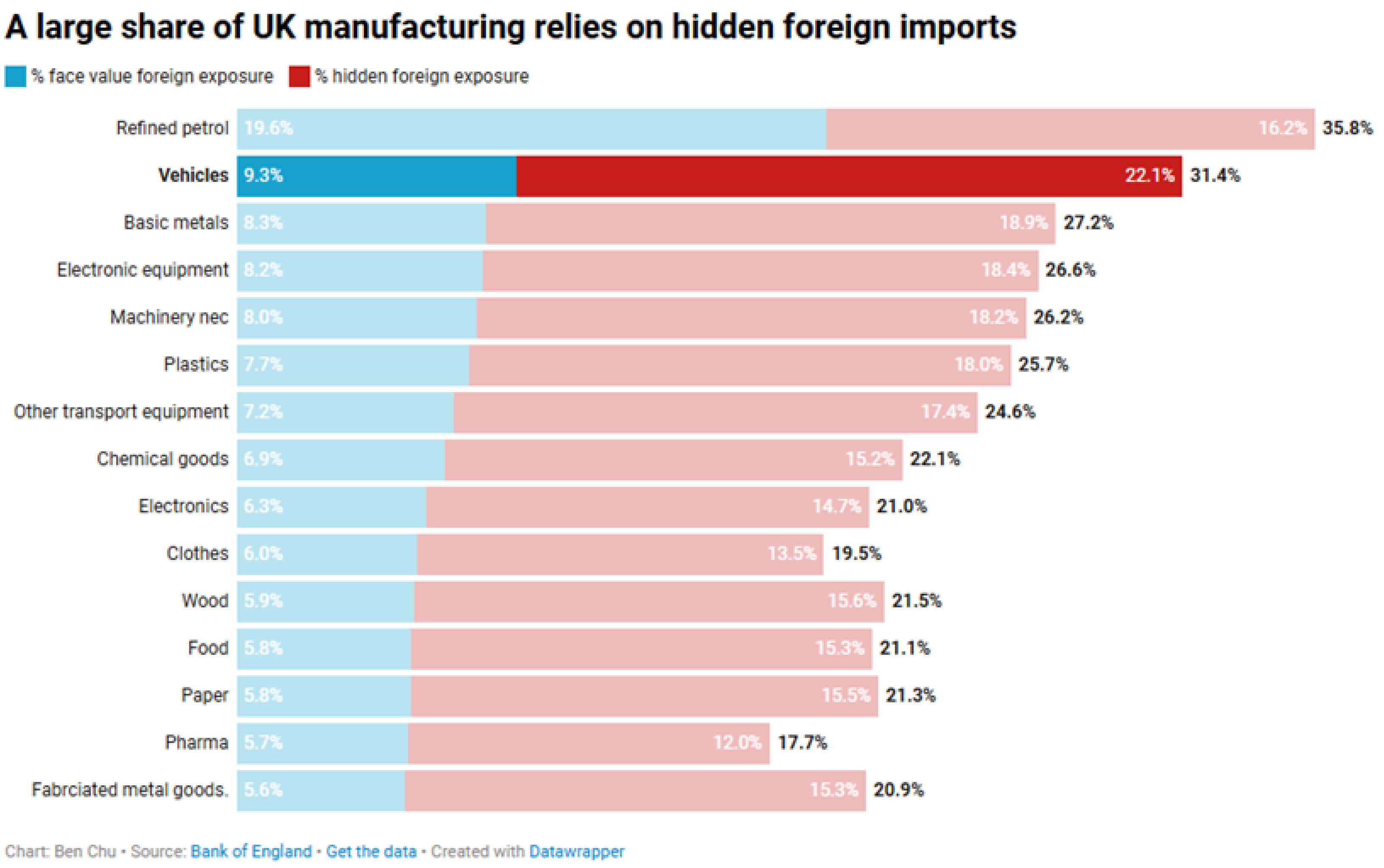
…but even greater when you factor in global value chains…



…and UK vehicle manufacturing is a case in point…



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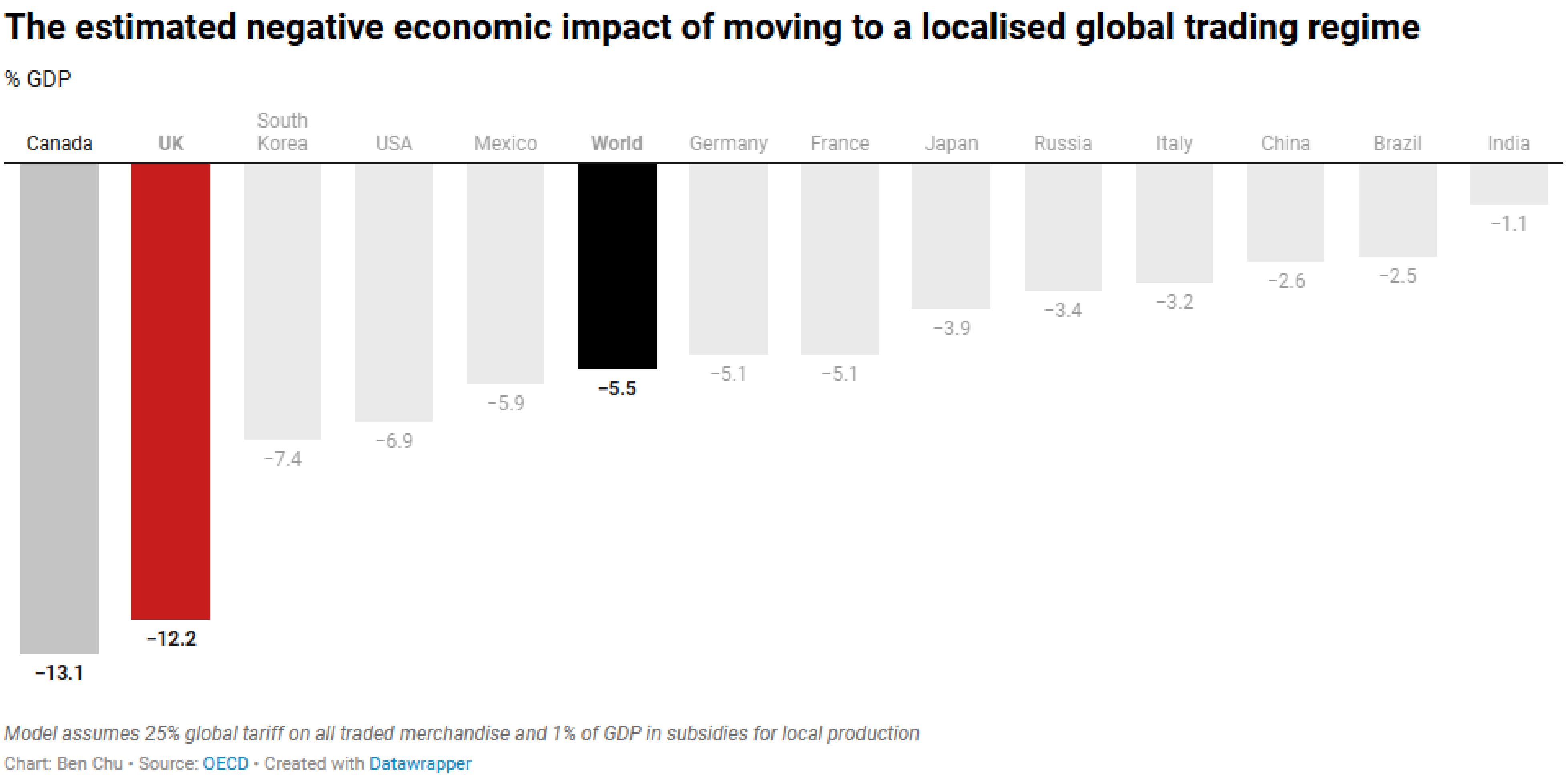
…meaning the UK has more to lose from exile economics than most…



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…because of our key manufacturing sectors.

"The more the country relies on foreign inputs for production, the larger the drop in GDP when shifting to a localised regime. Canada and the United Kingdom, for example, ***which are highly integrated in the motor vehicle and parts value chains and where these activities account for important shares of economic activities*** *experience large reductions in output in these sectors and also some of the largest GDP reductions in the countries analysed."*

Source: OECD, 2020

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Key takeaways

- Exile economics is rising
- It might fail/be aborted because of the complexity of global value chains
- But trying to achieve it will be costly
- And the UK is especially vulnerable

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Thank You

Ben Chu

Policy and Analysis correspondent at BBC Verify,

Author of "Exile Economics: What Happens If Globalisation Fails"

BBC