

# No turning back

2025 Outlook

December 2024

# Our vision

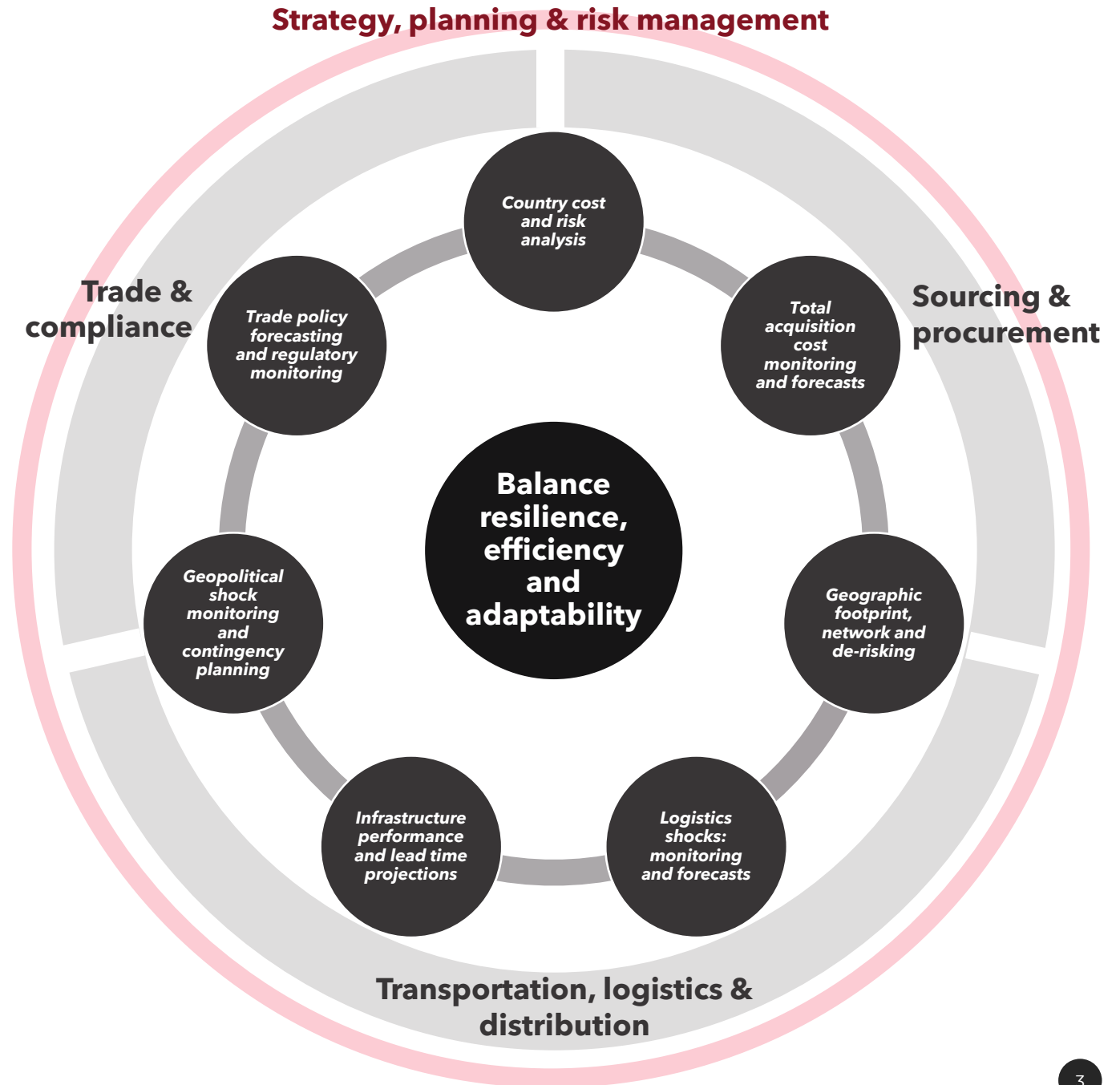
Help clients build more resilient, efficient and adaptive supply chains

.... focusing on geopolitical, economic and operational disruptors

... through advisory engagements and insights

# Our service lines

Bringing together political and economic insights in service of global supply chains



# Costs growing across the board

Uncertainty on sudden disruption v. gradual trajectory

Macroeconomics, sourcing and production	Global trade	Global geopolitics
<p>A delicate return to growth</p> <p>Tariff impact uncertainties</p>	<p>A looming trade war</p>	<p>A new disrupted normal</p>
<p>Slight improvement in 2025 overshadowed by growing tariff threats</p> <p><b>**Increasing costs**</b></p>	<p>Protectionism ramps up</p> <p>Retaliations in the offing</p> <p><b>**Increasing costs**</b></p>	<p>Hoping for the best, preparing for the worst</p> <p><b>**Increasing costs**</b></p>

# AGENDA

- **Economics and supply chains**

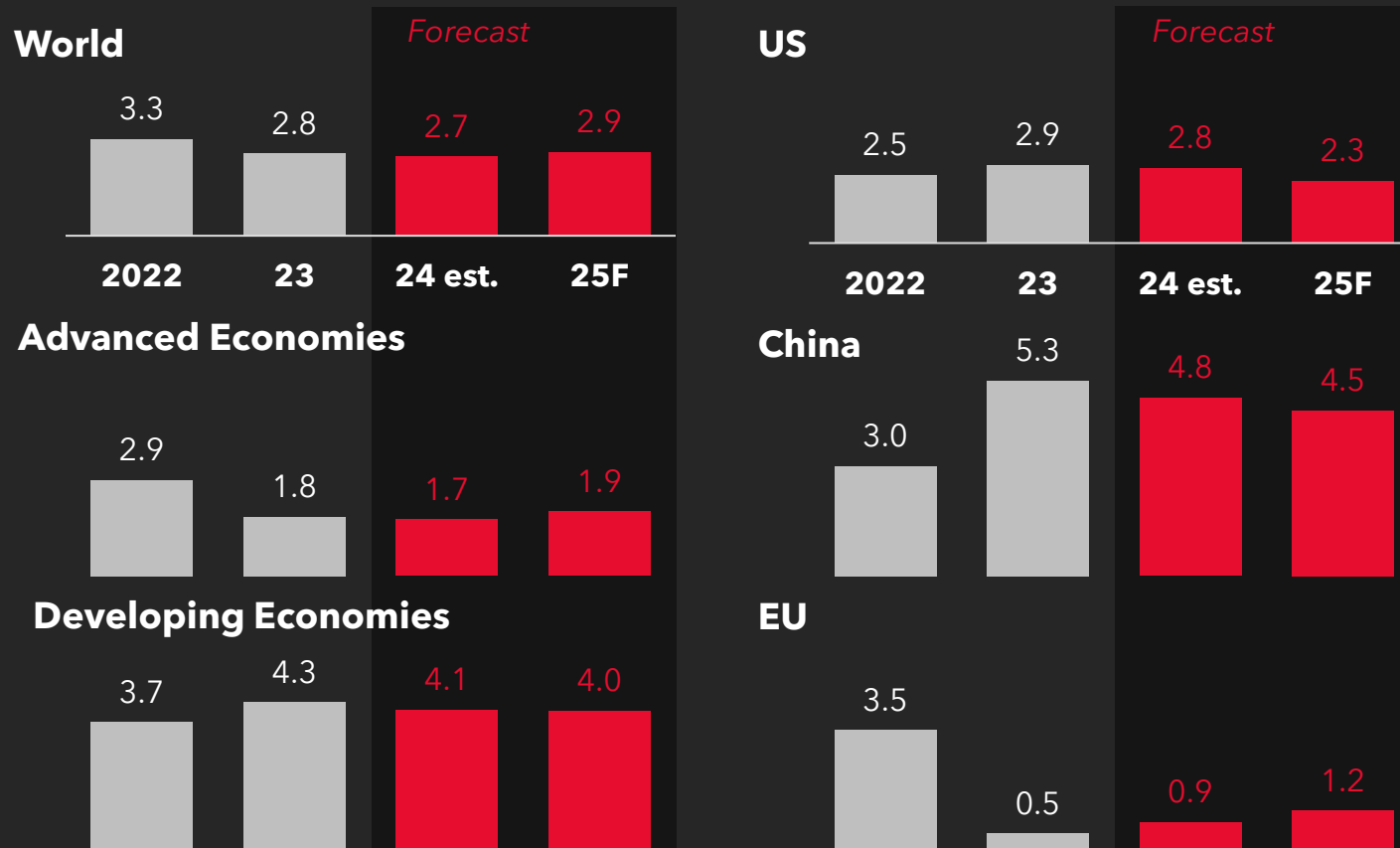
- Global trade
- Geopolitical shocks
- Beyond 2025

# Under current policy global growth would improve in 2025

But growth drivers shift away from US and China to the rest of the world

## GLOBAL GROWTH FORECAST

YOY % CHANGE IN REAL GDP (LOCAL CURRENCY)



## KEY POINTS

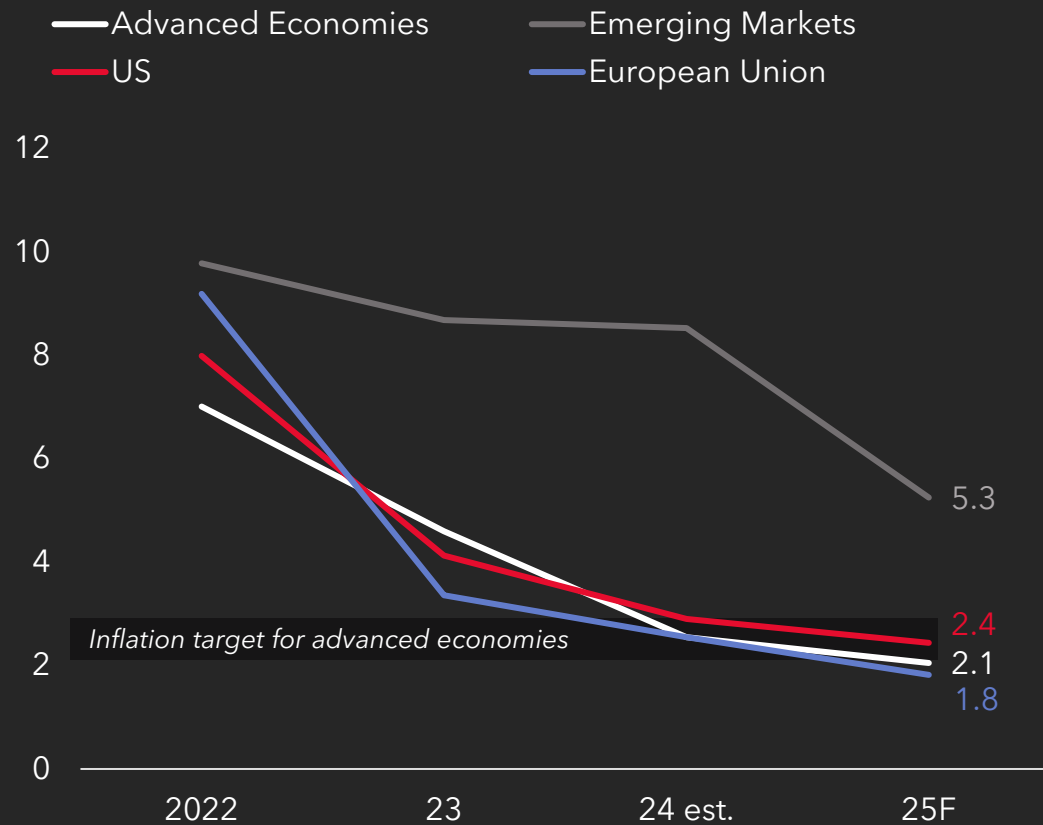
- **Global growth** is improving, trending back to the 3% long-term average
- The **US** is solid but decelerating from peak growth as consumer spending growth will finally slow in the face of high prices and interest rates, in addition to substantially lower net immigration
- **China's** economy is struggling, but stimulus programs will counterbalance weak domestic demand
- **Europe** will improve marginally from weak back-to-back years, but it still faces structural obstacles including a long-term manufacturing recession in Germany

# Inflation and interest rates will continue to normalize

Inflation is decelerating, but high price levels will keep pressure on consumers

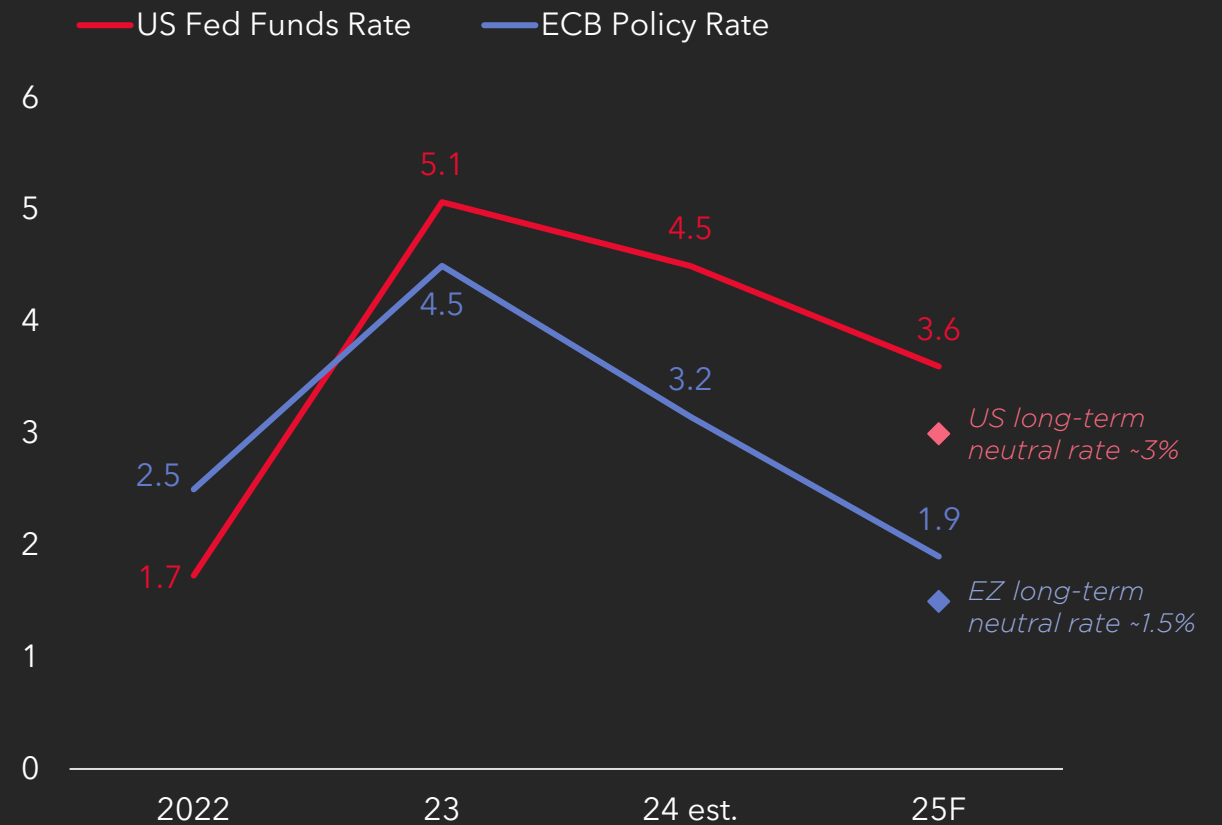
## CONSUMER PRICE INDEX

YOY % CHANGE, HEADLINE CPI



## CENTRAL BANK POLICY INTEREST RATES

END OF PERIOD (%)



Source: Oxford Economics, Bloomberg, Onyx

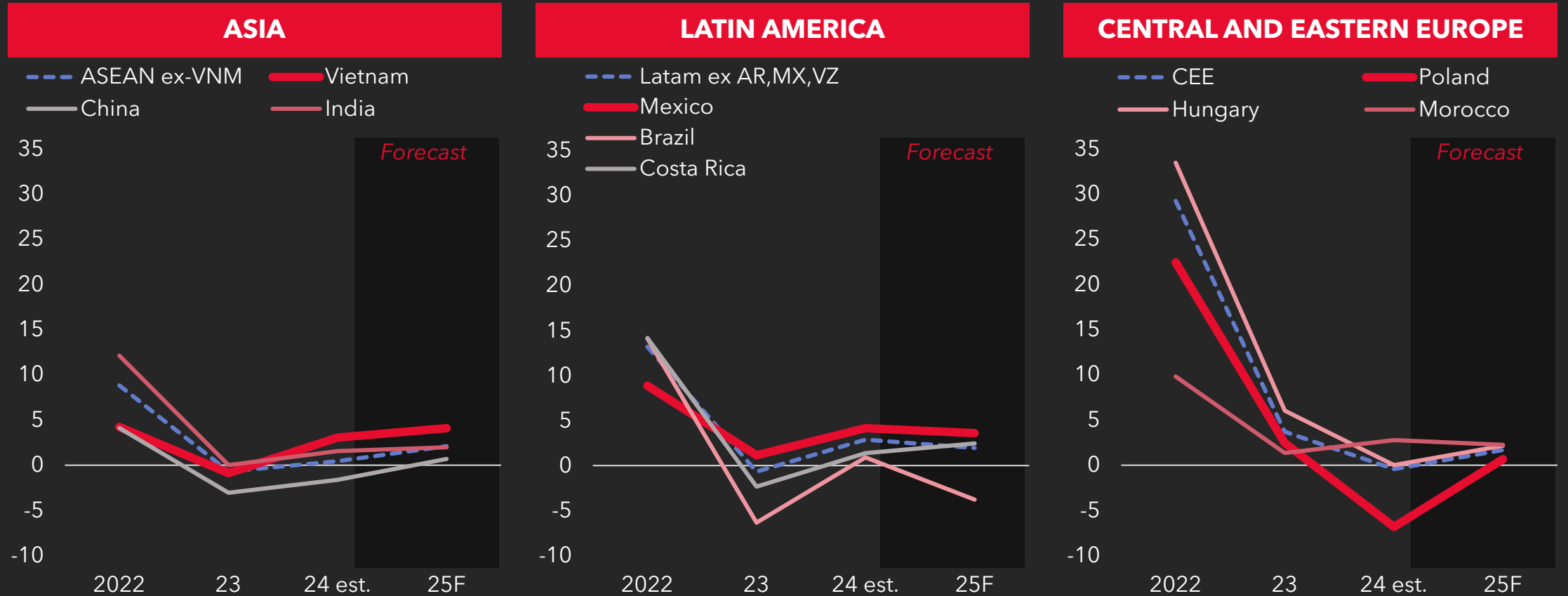
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# Return of sourcing cost pressure in Southeast Asia and Mexico

Central and Eastern Europe may see growing attractiveness

## PRODUCER PRICE INDEX

YOY % CHANGE, HEADLINE CPI



Source: Oxford Economics, Onyx  
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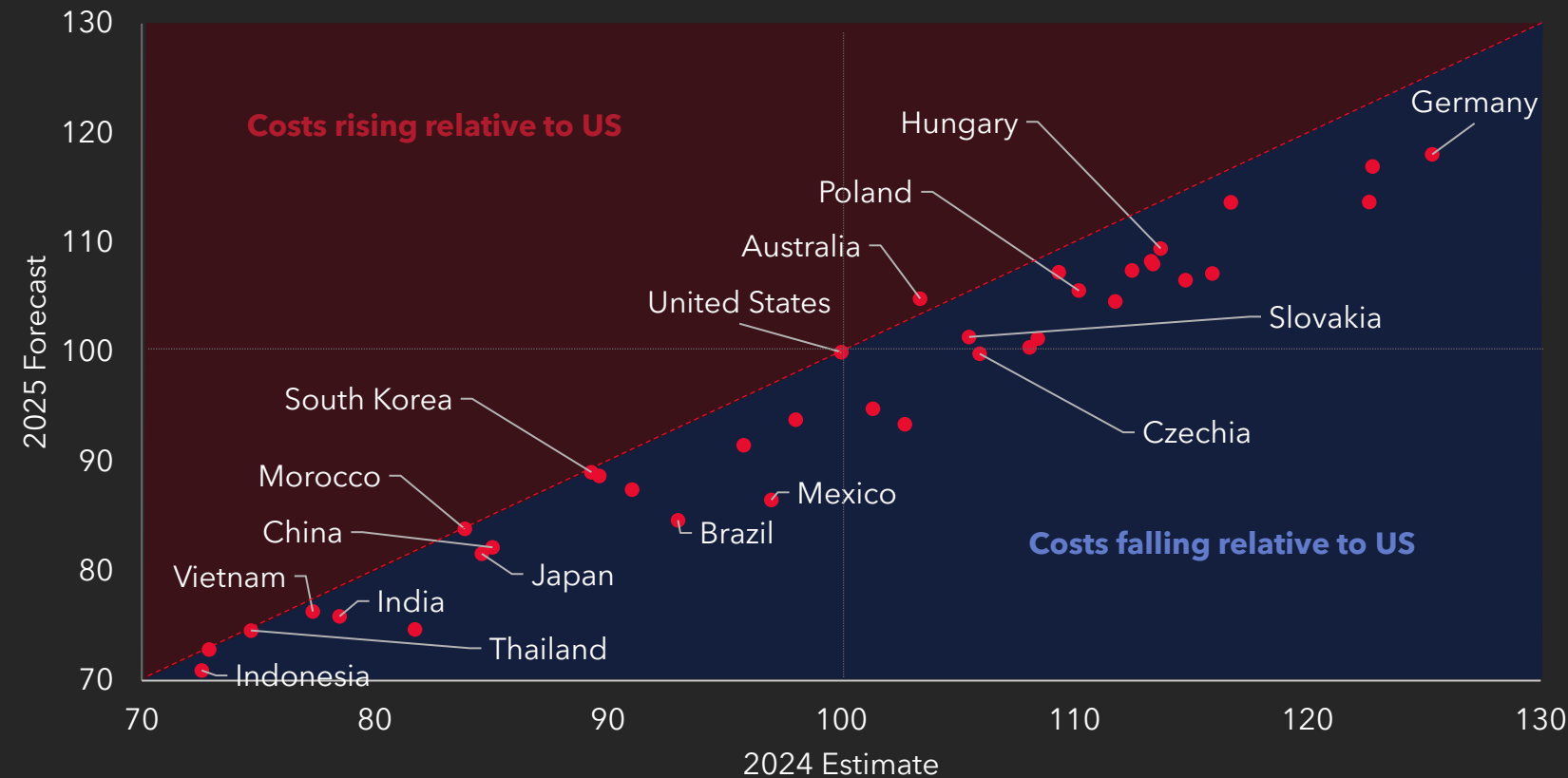


# Sourcing cost pressures easing compared to US domestic prices

A strong US dollar should offset building cost pressure in MX, VN

## COST OF MANUFACTURING INDEX

US = 100





## COST DRIVERS









- Producer price inflation is rising faster in places like **Vietnam and Mexico**
- Unit wage costs, adjusted for productivity, **are expected to rise 2-3x faster in the US** than Southeast Asia
- **US dollar strength is expected to offset domestic cost pressures** by making imports cheaper - especially from Europe (where economic weakness is weighing on the Euro) and Latin America (where higher inflation rates result in FX weakness)

# Global factors contribute to tightness in shipping markets

Air demand driven by e-commerce, while Red Sea closure partially offsets new ocean capacity

 Tighter market  
 Looser market

## SHIPPING CAPACITY OUTPUT

AIR MARKET	MARKET DIRECTION	OCEAN MARKET	MARKET DIRECTION
<b>DEMAND</b> <ul style="list-style-type: none"> <li>Solid global GDP/trade growth, esp. Europe and Asia (BAU ex-new tariffs)</li> <li>Strong E-commerce growth</li> </ul>		<b>DEMAND</b> <ul style="list-style-type: none"> <li>Container volumes expected to grow 2-3% in 2025, decelerating from 4.5% in 2024</li> <li>Modest inventory drawdown after 2024 build-up</li> </ul>	
<ul style="list-style-type: none"> <li>US de minimis policy changes</li> <li>EU regulation of Chinese e-commerce platforms</li> <li>Shein/Temu shifting business model to forward stock</li> </ul>			
<b>SUPPLY</b> <ul style="list-style-type: none"> <li>Global aircraft shortage</li> <li>Carriers prioritizing passenger capacity expansions</li> <li>Indefinite Red Sea closure, potential port strikes</li> </ul>		<b>SUPPLY</b> <ul style="list-style-type: none"> <li>Capacity to increase 6% in 2025, down from 10.3% in 2024</li> <li>Red Sea closure supports market balance</li> <li>Uncertainty on how carriers will manage excess capacity</li> </ul>	
<ul style="list-style-type: none"> <li>Carriers shifting capacity to Asia</li> </ul>			
<b>OVERALL:</b> Strong e-commerce demand and limited capacity growth result in a tight market balance		<b>OVERALL:</b> Cumulative capacity additions from 2024-25 outpace demand, but the Red Sea disruption will keep the market balanced	

Source: Onyx, Xeneta, Clarksons

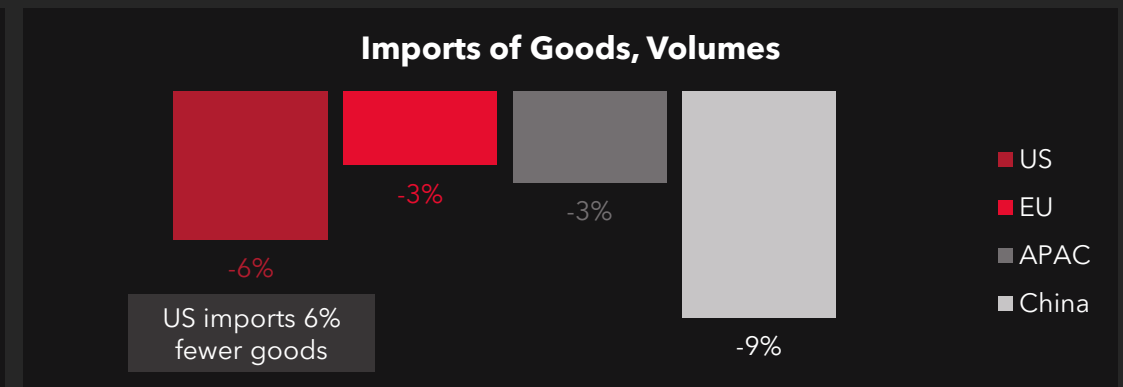
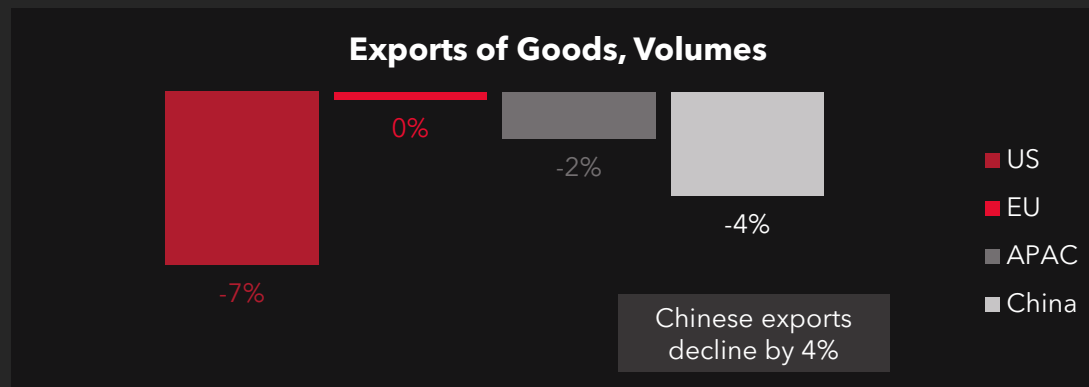
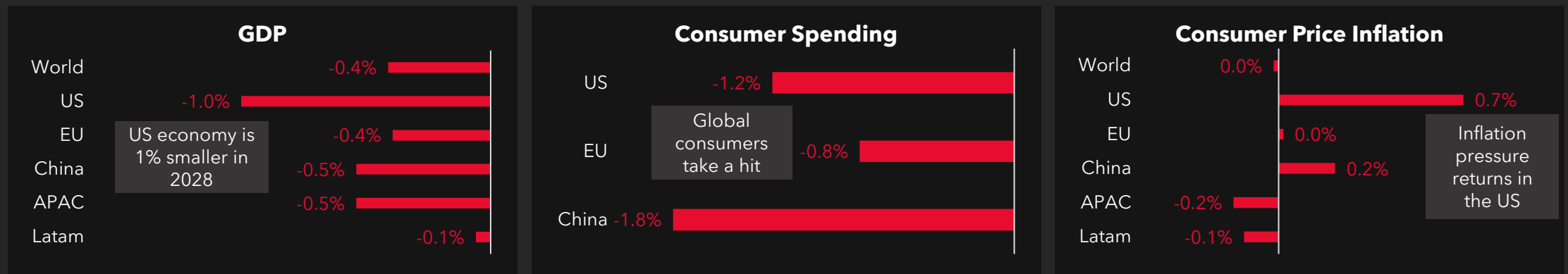
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# Trade policy is a major wild card for growth and inflation

Worst case scenario raises the risk of stagflation

## ECONOMIC IMPACT OF TRADE WAR SCENARIO (IF IMPLEMENTED AS STATED IN US ELECTION CAMPAIGN TRAIL)

Percentage point change in key economic indicators in 2028



# AGENDA

- Economics and supply chains

- **Global trade**

- Geopolitical shocks
- Beyond 2025

# A sharp potential expansion in tariffs globally

But unprecedented retaliation may force US to seek bilateral, negotiated approaches

<b>US</b>		<ul style="list-style-type: none"><li>▪ Wild cards point to a mishmash of trade measures in the offing</li><li>▪ Domestic focus on taxes and rollback of Biden-era sustainability</li></ul>
<b>Mexico</b>		<ul style="list-style-type: none"><li>▪ Going all in and upstream in nearshoring; potential further action on Chinese imports</li></ul>
<b>EU</b>		<ul style="list-style-type: none"><li>▪ Prioritizing US market access over tit-for-tat, but may retaliate if US acts first</li></ul>
<b>China</b>		<ul style="list-style-type: none"><li>▪ Likely to continue to retaliate to US trade measures</li><li>▪ Diversification into emerging markets is a key priority</li></ul>
<b>SE Asia</b>		<ul style="list-style-type: none"><li>▪ Continued focus on firmly establishing the region as a top de-risking alternative</li><li>▪ Tariff threats likely to trigger concessions and attempts at a negotiated solution</li></ul>
<b>India</b>		<ul style="list-style-type: none"><li>▪ Manufacturing still a priority, but red tape and India-for-India focus seem to hinder export base potential</li></ul>

# Wild cards point to a mishmash of trade remedies in the offing

Domestic focus on taxes and rollback of Biden-era sustainability

TRADE POLICY PROPOSALS			INDUSTRIAL POLICY PROPOSALS	WILD CARDS
	Tariffs As mentioned recently	Other measures Ongoing from current administration	Tax incentives	
China	<ul style="list-style-type: none"> <li>+10% initial tariffs (pot. 20-60%)</li> <li>PNTR status - min. 35% non-strategic; 100% strategic</li> </ul>	<ul style="list-style-type: none"> <li>UFLPA enforcement</li> <li>De minimis</li> <li>Tech exports</li> <li>Entity lists</li> </ul>	<ul style="list-style-type: none"> <li>Extend 2017 tax cut policies</li> <li>Made in America tax cut to 15%</li> <li>All other corporate tax cut to 20%</li> </ul>	<ul style="list-style-type: none"> <li><b>Intensity and timeliness of retaliation</b>, especially from China and EU, leading to pressure for <b>negotiated solutions</b></li> <li><b>Timing of tariff increases</b> (immediate v. over time)</li> <li><b>Nature of tariff increases</b> (temporary v. permanent, conditional on behavior)</li> <li><b>Breadth of tariff increases</b> (in categories and countries)</li> <li><b>Intensity of push for keeping Biden-era policies</b></li> </ul>
Others	<ul style="list-style-type: none"> <li>10-20% on unspecified foreign goods</li> <li>In-kind tariffs</li> <li>Strategic industry investigations</li> </ul>	<ul style="list-style-type: none"> <li>Tech exports</li> <li>Funding</li> <li>Security guarantees</li> <li>Currency investigations</li> </ul>	<b>Business environment and rollbacks</b> <ul style="list-style-type: none"> <li>Rollback energy transition tax credits</li> <li>Reduce regulations, including sustainability focus</li> <li>Advance oil and gas provisions</li> </ul>	

# Policy tools vary in length and opportunity for public pushback

IEEPA provides broadest powers, but relatively untested

Roadblocks



Low to High

Tool	Process	Presidential powers	Speed	Public oversight	Legality
IEEPA	Immediate executive action	Broad powers	Days or weeks	Congress needs 2/3rds majority	Untested
338		≤50%, product specific, import restrictions	Days to weeks	Potential ITC oversight	Untested
122		15%, countries with trade deficit only	Days or weeks	After 150 days	Untested
301 China expansion	USTR investigation	Equivalent to harms	Days or weeks	Comment period	Limited prior action
301 ex-China		Equivalent to harms	Length of investigation a key determinant		Limited prior action
232	Commerce investigations	National security, product specific			Untested for broad application
201	ITC investigation	Product specific safeguards			Limited prior action
PNTR	Legislative	Potential legislation to increase powers	Months or years	Indirectly through representatives	Unlikely to face challenges

Source: PIIE, CSIS, STR, CRS, Onyx

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# Many possible tactics and policy options for tariffs

But full slate, midterms give limited space for strategic action



## POLICY PRIORITIES AND TARIFF SCENARIOS FOR 2025-26

	Policy Priorities	2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
White House	Tariffs: Max Pressure on China	10-20-60% leading to Congressional PNTR repeal; if passed, +180 days to first increase							
	Tariffs: Slow ramp-up	10-20% on other countries w/ imbalances			Add 10%			Add 10%	
	Tariffs: Protectionist (Section 122)	+15% leading to legislated balanced trade through tax bill reconciliation							
	Milestones	<ul style="list-style-type: none"> <li>Budget</li> <li>Confirmations</li> </ul>		<ul style="list-style-type: none"> <li>Tax reform</li> </ul>		<ul style="list-style-type: none"> <li>Budget</li> </ul>		<ul style="list-style-type: none"> <li>USMCA</li> </ul>	
	Priorities	<ul style="list-style-type: none"> <li>Border security &amp; deportations</li> <li>Ukraine-Russia, Israel-Gaza</li> <li>IRA rollback</li> <li>Administrative reform (DOGE)</li> </ul>							
Congress	Milestones	<ul style="list-style-type: none"> <li>Confirmations</li> <li>Budget</li> </ul>		<ul style="list-style-type: none"> <li>Tax reform</li> <li>Appropriations</li> </ul>		<ul style="list-style-type: none"> <li>Midterm campaign and elections</li> </ul>			
		Priorities	<ul style="list-style-type: none"> <li>Regulatory, permitting, &amp; budget reform</li> <li>Energy policy</li> <li>Border security</li> </ul>						

Source: Trump campaign, RNC platform, Politico, Onyx  
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# US seeking to maximize pressure on Mexico

Rules of origin, immigration, and labor are key issues

## USMCA - TIMELINE FOR US ACTION

- » **Jan 20, 2025:** Inauguration Day, likely followed by formal notification
- » **October 2025:** Public comment period
- » **By December 31, 2025:** USTR review of USMCA due to Congress
- » **By June 2026:** Deadline to submit issues for review
- » **July 2026:** USMCA Free Trade Commission review

## KEY POSITIONS AND GOALS

### US

- Containing Chinese trade diversion
- Revising rules of origin in strategic industries
- Improving border management
- Strengthening labor provisions

### Canada

- Protecting energy exports
- Containing Chinese market access and expanding integration with US in critical minerals
- Addressing current disputes, including dairy

### Mexico

- Move upstream in manufacturing
- Protecting energy, telecoms
- Addressing current disputes, including corn
- Using border control, labor concessions as key levers

# Going all in and upstream on nearshoring

Autos and machinery most likely to see action on Chinese imports

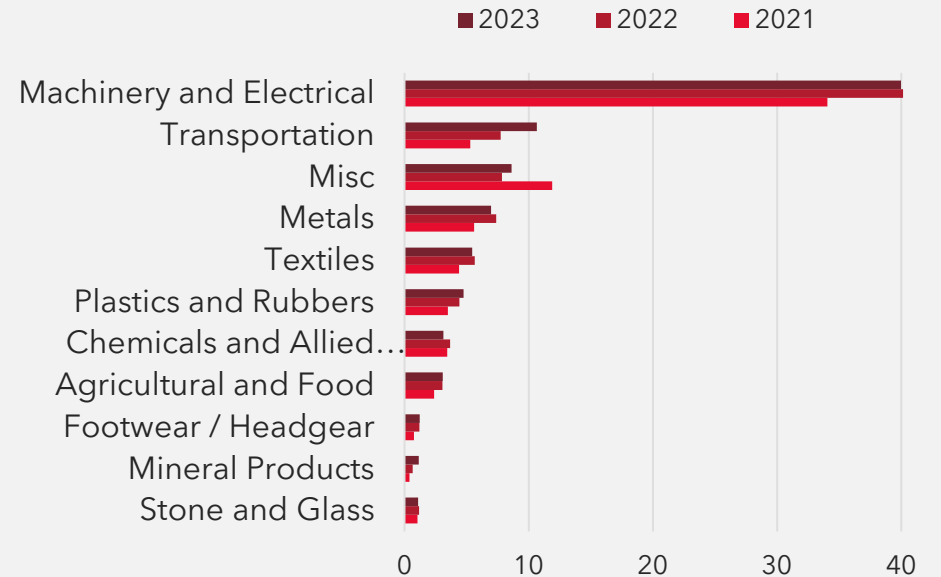
Reforms seek to address nearshoring obstacles, benefit from US-China rivalry...

## GOVERNMENT PRIORITIES IN INFRASTRUCTURE AND TRADE

- Industrial corridor development
- Energy transition infrastructure investment
- Customs modernization
- Compliance simplification
- Spending cuts in defense, security, and environment
- Regulatory reforms

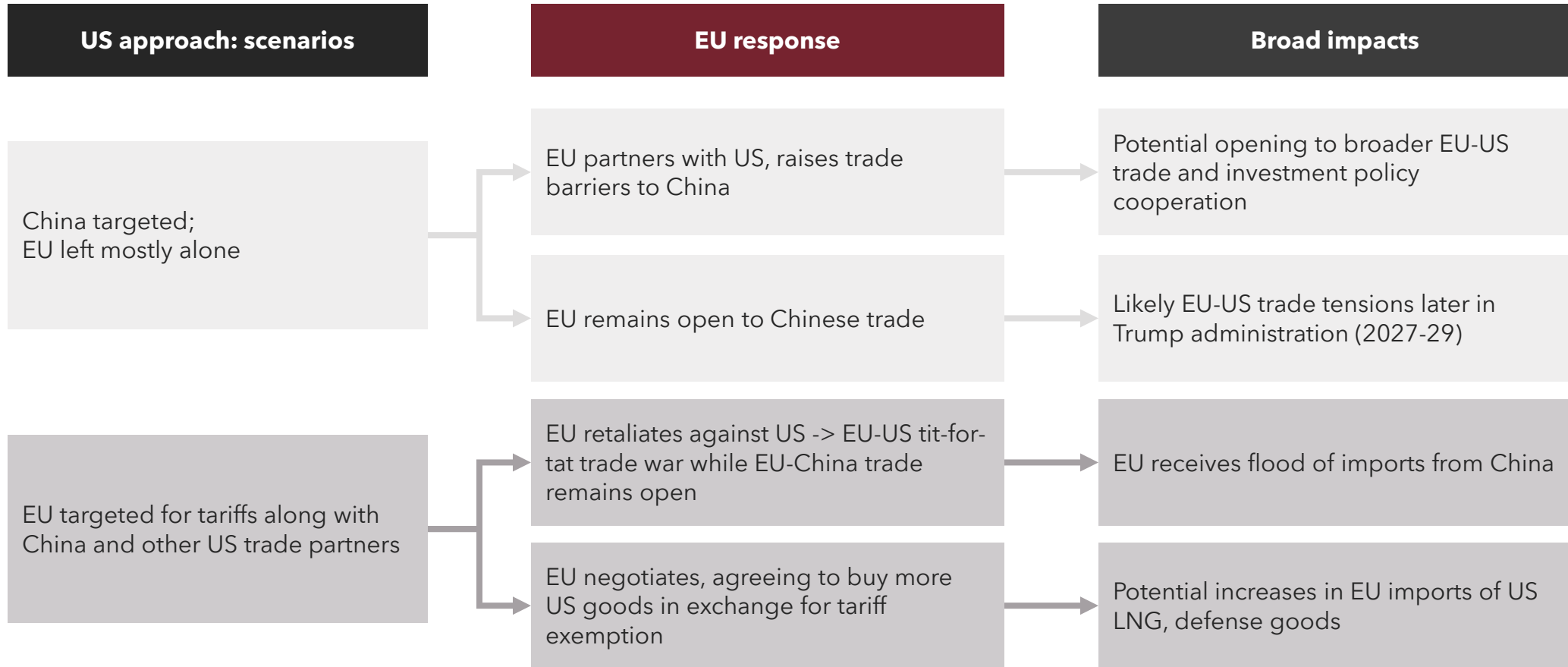
... with auto and machinery imports likely focus of trade barriers, retaliation, and local investment requirements

## IMPORTS FROM CHINA USD BILLION



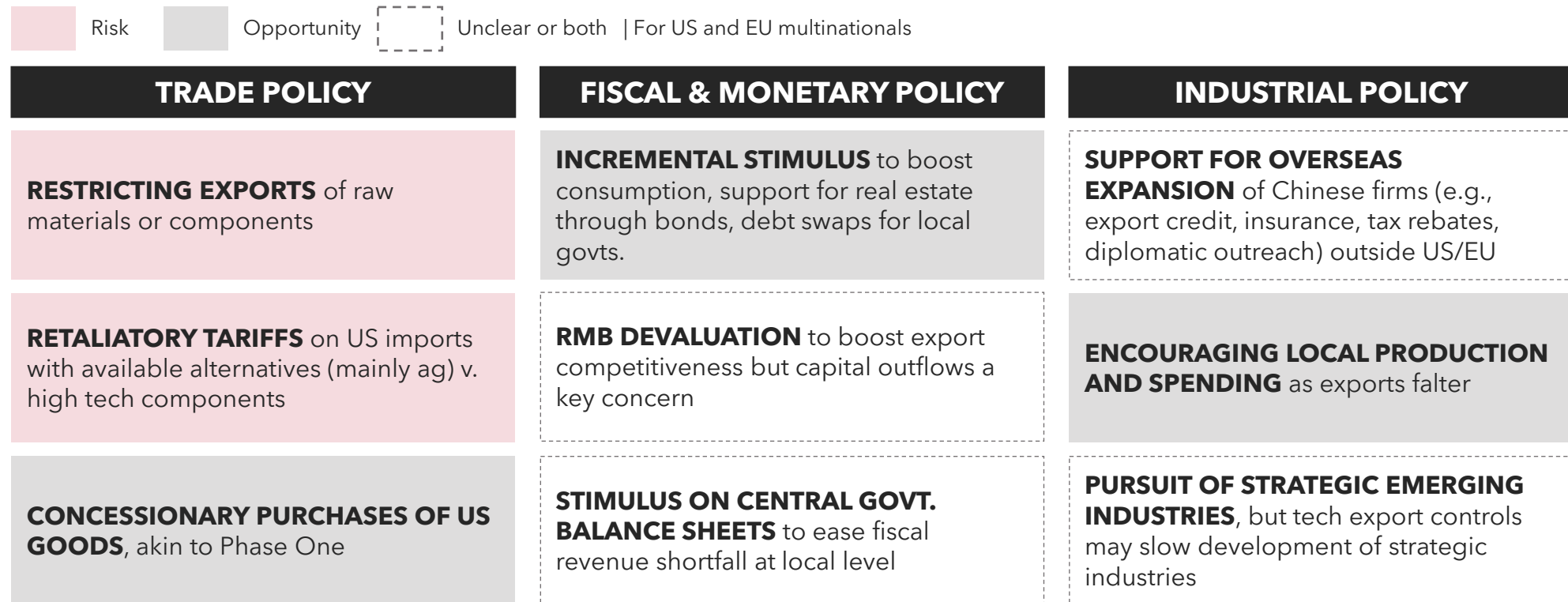
# EU trade policy hinges on US approach

EU to prioritize US market access over tit-for-tat actions, but may retaliate if US acts first



# China likely to continue to react strongly to US trade measures

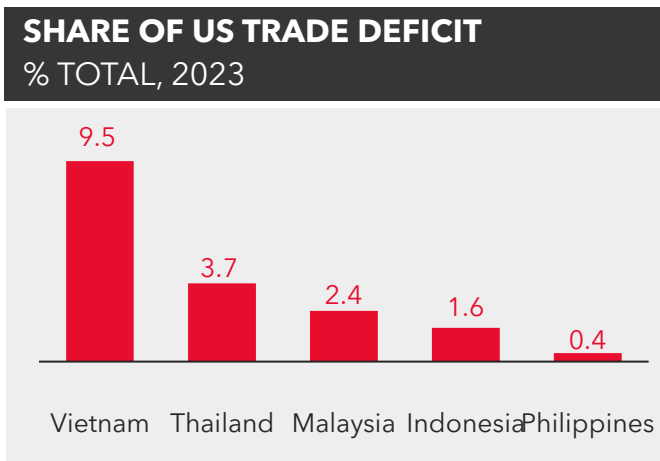
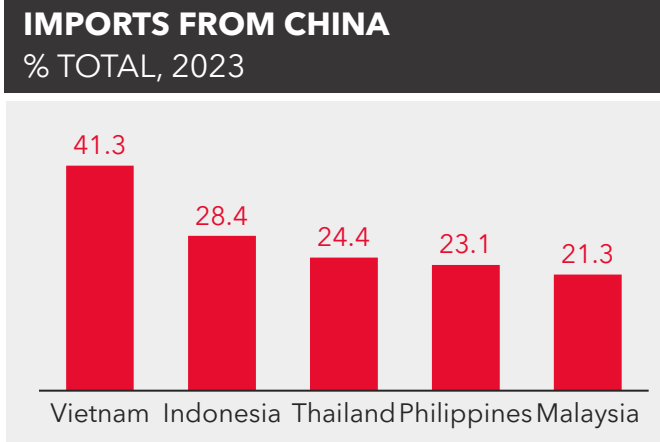
Diversification into emerging markets is a key priority



# Vietnam advancing its reliability as a de-risking export base

Threat of US tariffs may lead to a negotiated solution

2025 INFRASTRUCTURE OUTLOOK			
	Positive	Neutral	Negative
	LOGISTICS	POWER	
INDONESIA	Implementing the National Logistics Ecosystem	Upper Cisokan hydropower - 1,040 MW (completion: 2025)	
MALAYSIA	East Coast Rail Link (completion: 2026); Port Klang expansion	31% renewable energy share by 2025; Power grid upgrade (start: 2025)	
PHILIPPINES	Expressway and port projects in Luzon - construction start: 2025	Natural gas expansion; SMR exploration	
THAILAND	Eastern Economic Corridor is still in progress	Development of hydro-solar farms; SMR exploration	
VIETNAM	Commence operation: Long Thanh Airport and North-South Expressway East	6,793 MW additional power sources in 2025; grid upgrade; SMR exploration	



- ### KEY INSIGHTS
- **SEA-5 countries' dependence on Chinese imports** makes them vulnerable to the effects of the impending US-China trade tensions
  - **Southeast Asian countries may be compelled to take sides** if US-China tensions escalate further
  - **Vietnam could be one of the main targets for Trump tariffs** due to the significant trade deficit the US has with the country
  - **The US could seek to update the U.S.-Vietnam Bilateral Trade Agreement (BTA)** to include clauses to ensure that Vietnam buys more US products

Source: Trade Map, Onyx

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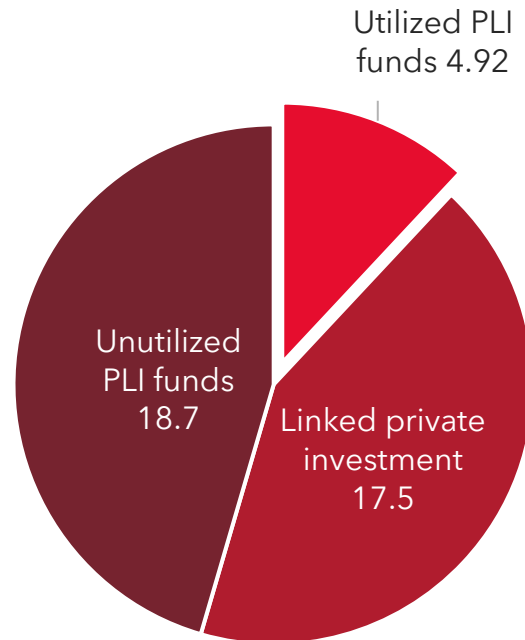
# Manufacturing in India continues to be a policy priority

Concerns over red tape and export-orientation vs. India-for-India to continue

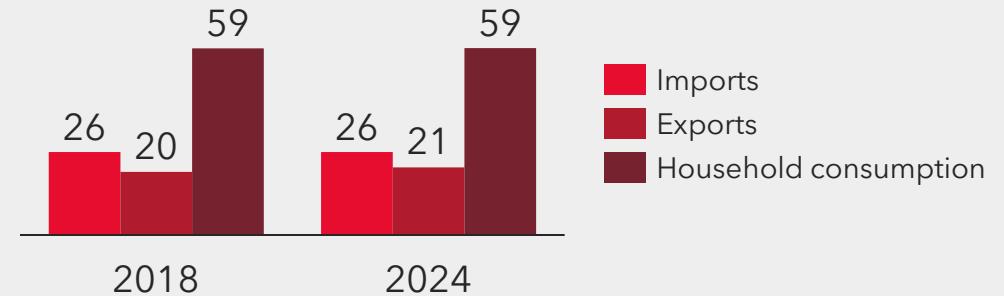
## PRODUCTION-LINKED INCENTIVES, 2021-AUG 2024 USD BILLION

### Only 20% of funds are utilized

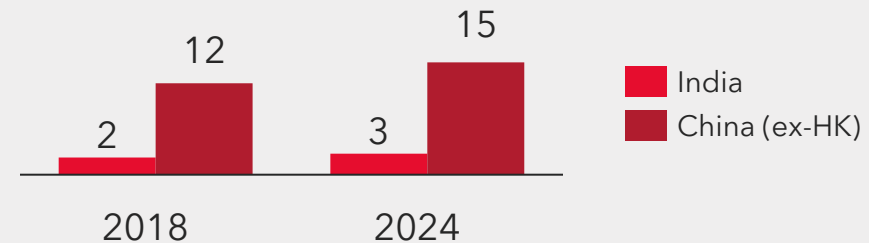
- Complex eligibility criteria
- Only 8 out of 14 sectors claimed PLI funds
- 3 main industries benefit: electronics, pharma, food products
- Traditional industries still dominate exports



## INDIA, DOMESTIC CONSUMPTION VS TRADE % GDP, USD, CONSTANT PRICES



## INDIA, SHARE OF GLOBAL EXPORTS V CHINA % GLOBAL TOTAL




# AGENDA

- Economics and supply chains
- Global trade
- **Geopolitical shocks**
- Beyond 2025

# Geopolitical fault lines worsening in the meanwhile

Stronger trend towards escalation

## GLOBAL GEOPOLITICAL HOT SPOTS

 Current trend

GEOPOLITICAL FAULT LINE	DE-ESCALATION	STATUS QUO	ESCALATION
<b>RUSSIA-UKRAINE</b>			<ul style="list-style-type: none"> <li>▪ One or both parties sees complete victory as a matter of survival</li> <li>▪ Balance of military resources tilts in favor of one of the parties</li> </ul>
<b>SOUTH CHINA SEA</b>		<ul style="list-style-type: none"> <li>▪ Claims remain unresolved, but economic cooperation takes precedence</li> </ul>	<ul style="list-style-type: none"> <li>▪ US security umbrella falters</li> <li>▪ One or more parties believes it can prevail with acceptable economic costs</li> </ul>
<b>CHINA-TAIWAN</b>		<ul style="list-style-type: none"> <li>▪ Independence not pressed publicly</li> </ul>	
<b>ISRAEL-HAMAS</b>			<ul style="list-style-type: none"> <li>▪ Israeli military aims include other countries in the region, esp. Lebanon, Syria</li> <li>▪ Conflict widens to include unresolved issues in other countries in the region</li> </ul>



# Tensions in South China Sea likely to rise in 2025

Claimants increasingly vocal and active about their stakes

## KEY HOTSPOTS

<b>PHILIPPINES</b>	<ul style="list-style-type: none"> <li>▪ Small-scale clashes to persist over Second Thomas Shoal, Sabina, Scarborough Shoal, other features</li> <li>▪ US defense commitments extend to SCS; does not appear to be a major constraint on Manila or Beijing</li> </ul>
<b>VIETNAM</b>	<ul style="list-style-type: none"> <li>▪ Reclamation and militarization of Spratly Islands to continue</li> <li>▪ China comparatively restrained with Vietnam arguably due to econ. ties, stronger VN military, and shared border</li> <li>▪ But this could change as Beijing grows more concerned over VN construction on Spratlys</li> </ul>

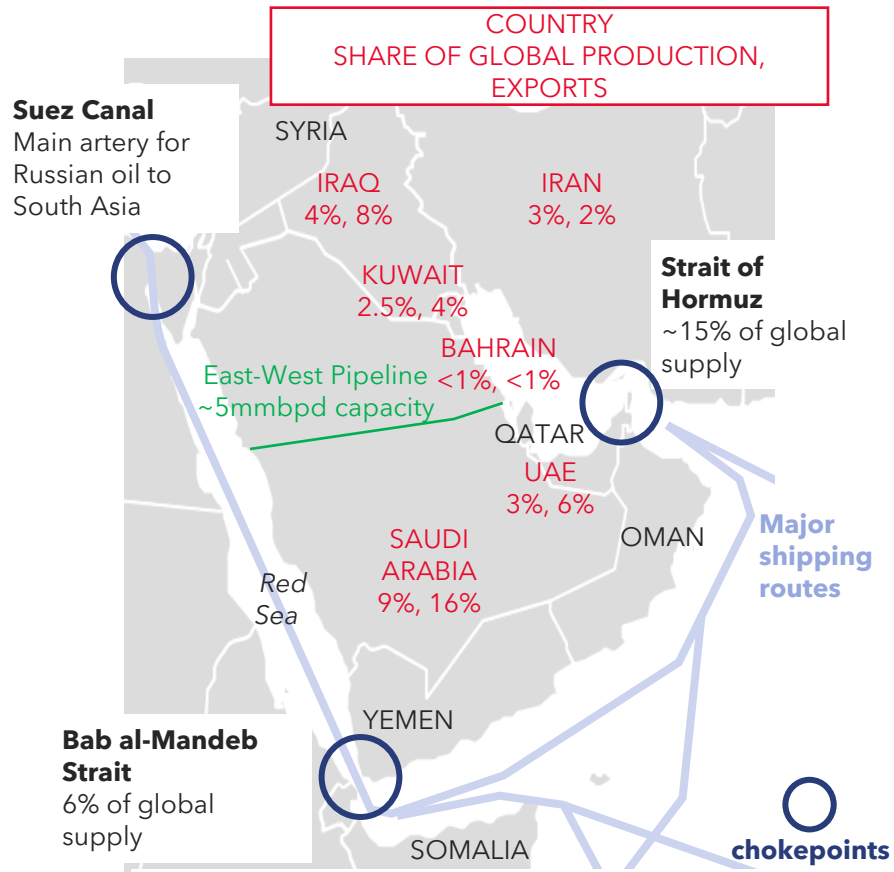
## KEY ADDITIONAL STAKEHOLDERS

<b>MALAYSIA, BRUNEI</b>	<ul style="list-style-type: none"> <li>▪ Less vocal or active about their claims in view of economic benefits</li> <li>▪ Seem less likely to support PHL or VNM</li> <li>▪ Approach likely to remain bilateral</li> </ul>
<b>INDONESIA</b>	<ul style="list-style-type: none"> <li>▪ Non-claimant but maritime development deal with China may deepen regional concerns about fortifying Beijing's claims</li> </ul>
<b>US</b>	<ul style="list-style-type: none"> <li>▪ US presence likely to remain consistent or even ramp up</li> <li>▪ Manila locked in enhanced defense deal; China a major security focus</li> </ul>

# Middle East conflict escalation could drive oil prices up

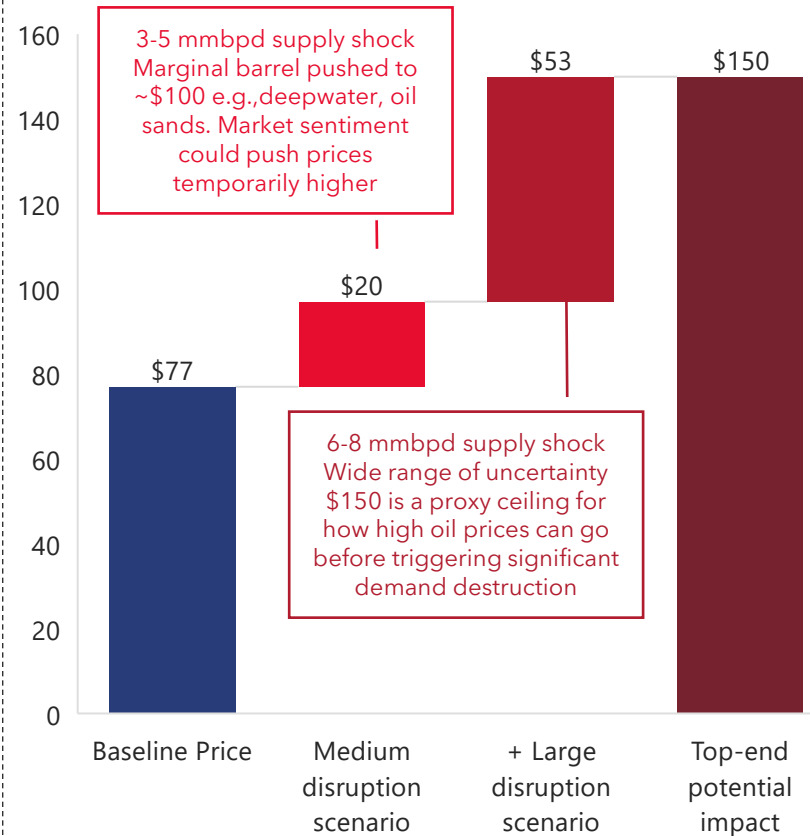
But outright military conflict remains a low risk in the short term

## >40% OF GLOBAL OIL EXPORTS AT RISK



## POTENTIAL OIL PRICE IMPACTS OF ESCALATION

BRENT CRUDE \$/BARREL



## ASSESSMENT

### Short-term:

- **The likelihood of full-scale conflict remains low** due to the high economic and diplomatic costs of such an escalation for all parties
- **However, smaller skirmishes, piracy, or sabotage attempts are moderate risks**, especially given existing tensions

### Long-term:

- **Prolonged instability, especially if diplomacy fails or Middle East conflicts spill over**, could gradually raise the risk of significant conflict

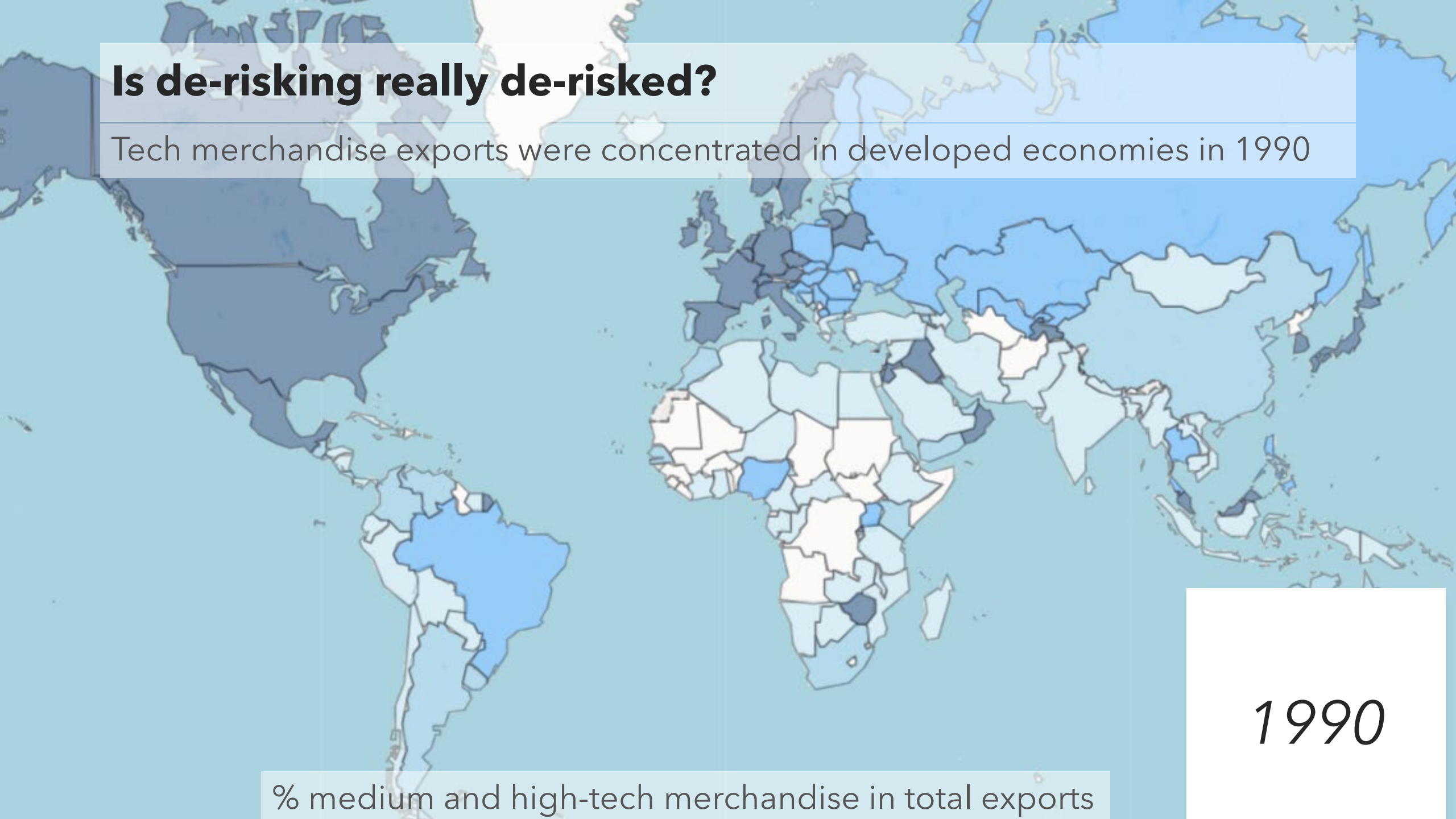
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# AGENDA

- Economics and supply chains
- Global trade
- Geopolitical shocks
- **Beyond 2025**

# Is de-risking really de-risked?

Tech merchandise exports were concentrated in developed economies in 1990



1990

% medium and high-tech merchandise in total exports

# Is de-risking really de-risked?

Today's technology merchandise value chain runs through geopolitical fault-lines



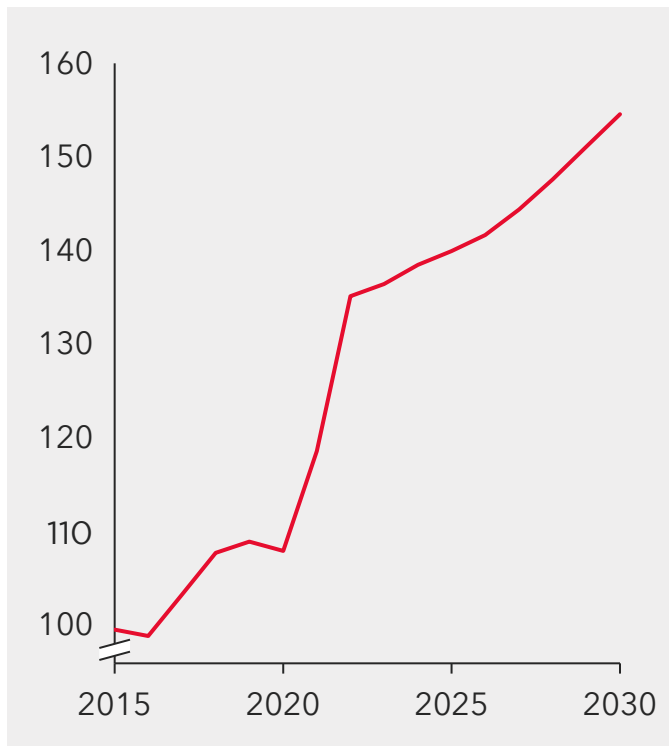
2023

% medium and high-tech merchandise in total exports

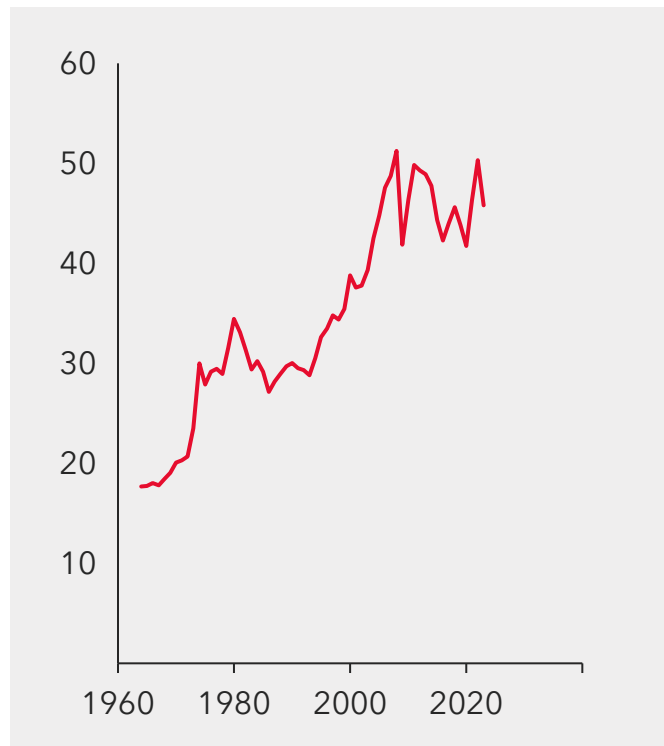
# Rising costs, demographics + geopolitical threats = reshoring + automation?

A complex balancing act

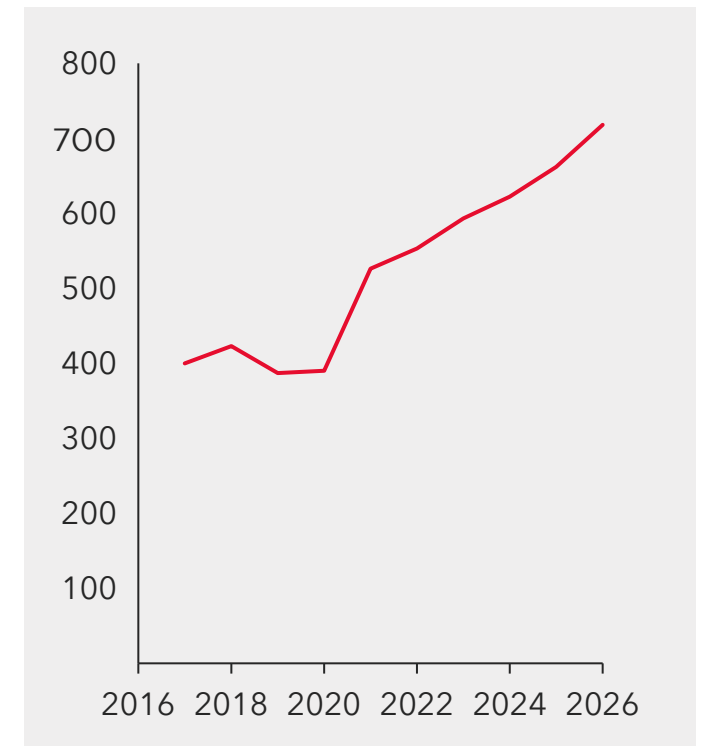
**GLOBAL PRODUCTION COSTS**  
INDEX, 2015=100



**MERCHANDISE TRADE**  
WORLD, % GDP



**ANNUAL INSTALLATIONS OF IND. ROBOTS**  
'000



# Get in **touch**

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