The Hartford

Geopolitical Trends

Global Insights Center

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Key Takeaways

US tariff policy could alter global trade flows in the long term, which could affect geopolitics.

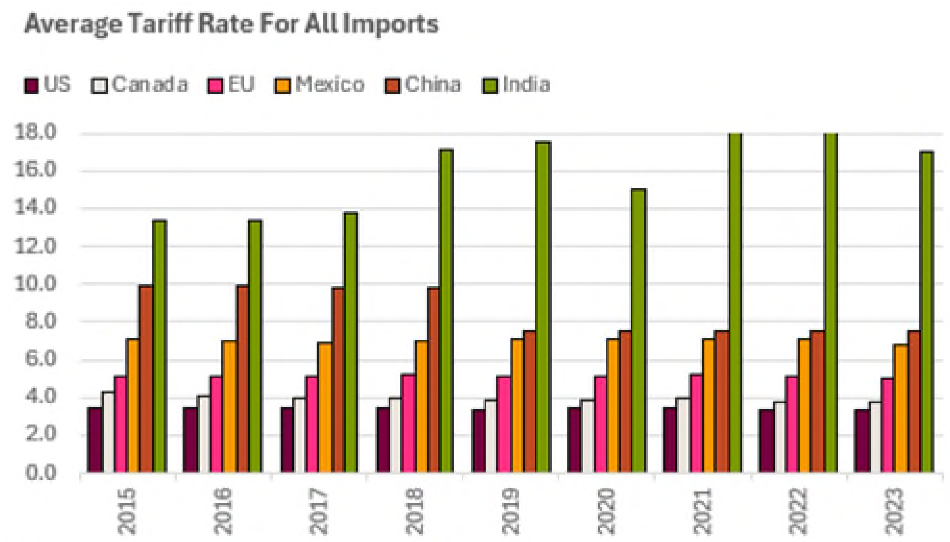
Geopolitics could align around the nations that lead defense production and advanced technologies.

Fiscal conditions and demographics matter; “young” nations with government budget flexibility can grow their geopolitical heft.

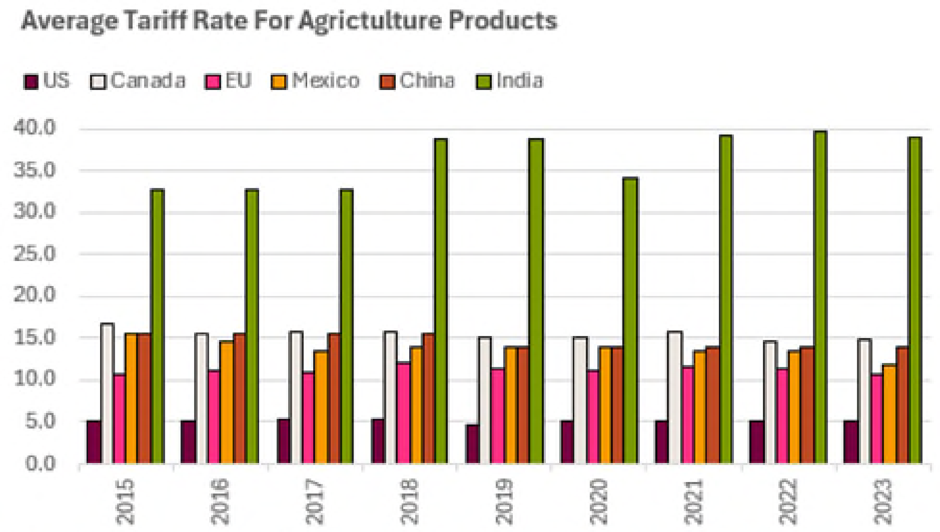
Geopolitics of Tariffs: US aiming to lower foreign countries' tariff rates

Average tariff rates outside the US are elevated, the US will likely continue raising tariffs until these figures decline

- The US's largest trading partners are maintaining elevated tariffs, especially for agricultural products as this sector is sensitive in most nations (domestic politics due to large rural voting base and national security).
- The US approach is likely aimed at **forcing these nations to lower their tariffs or enter a trade agreement**.
- **With an average tariff of 9.8%, the US is now higher than most of it's leading trading partners.**
- Tariff could continue to rise globally.



Source: World Trade Organization, Haver Analytics, The Hartford's Global Insights Center



Source: World Trade Organization, Haver Analytics, The Hartford's Global Insights Center

Geopolitics of Tariffs: Global response varies

India is trying to establish a new trade deal with the US, China is remaining quiet, while defense deals are in focus

- **Canada:** Elections could be affected by this topic as the Conservative Party was gaining momentum on the incumbent Liberal Party.
- **China:** Retaliatory tariffs have been measured; China wants to focus on manufacturing and exports to maintain economic growth as the population ages and savings rise.
- **India:** New Delhi has accepted undocumented workers sent back from the US, is negotiating a trade deal with the US, and may increase purchase of US defense goods.
- **European Union:** Retaliatory tariffs on products are being announced, as well as a pull back on US defense purchases (fighter jets).

Eventually the model of global trade we've been accustomed to could radically change

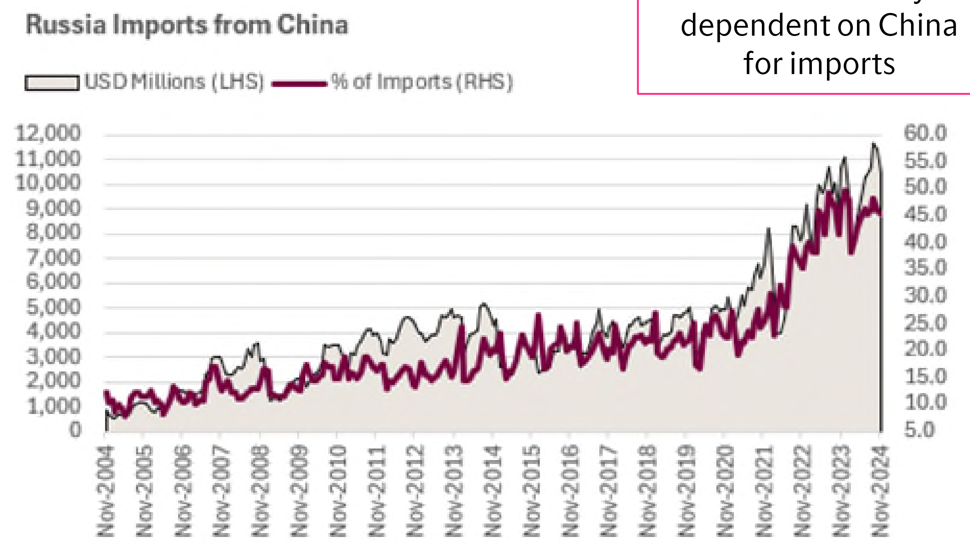
- Some of the US's closest allies are affected by pending tariff policy upending 70 years of US economic and foreign policy.
- US tariff policy is likely aimed to having other nations reduce their barriers to trade, in reality the era of free trade may be eroding, eventually affecting global trade.
- Some nations may react by reducing their own tariffs, while others may concentrate on building their own production capabilities (import substitution).
- In the near term, its more likely that trade flows will be routed through new markets as nations seek to avoid some of the tariffs.

Geopolitics of Tariffs: New trade routes equates to new geopolitical order

Follow the trade flow: as new trade partnerships emerge, so too will geopolitical alignments

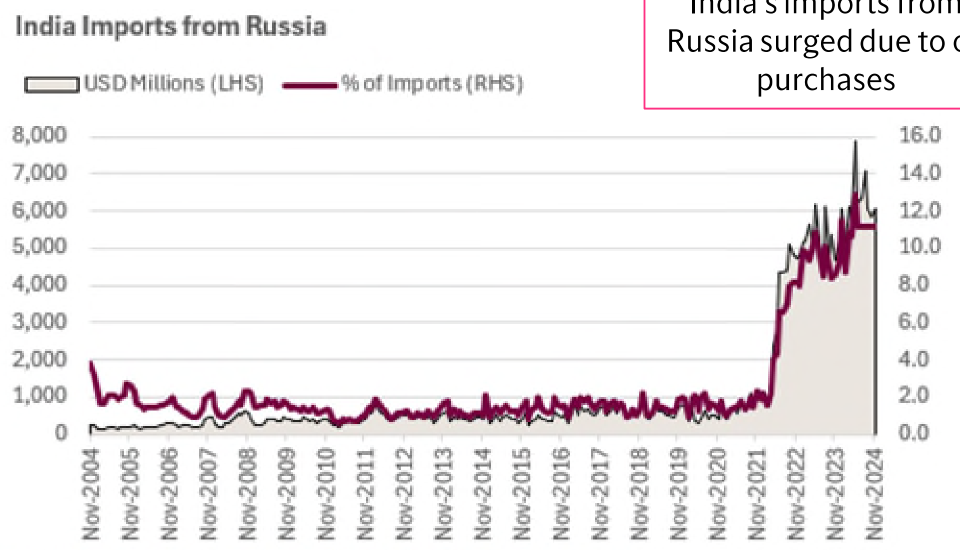
- In the near term, global trade will likely continue but may re-orient. Instead of Shanghai to LA, China originated goods may move through new countries.
- Some nations may increase their bilateral trade outside the US.
- This could create new shipping lanes of importance boosting new economies.
- Deeper trading relations could spur a realigning of partnerships.

Russia is heavily dependent on China for imports



Source: US Census Bureau, IMF, The Hartford's Global Insights Center

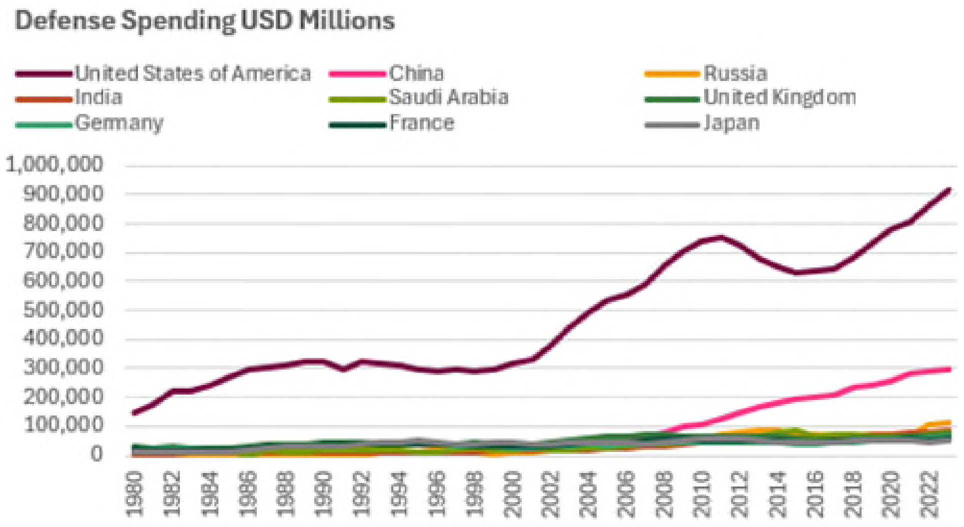
India's imports from Russia surged due to oil purchases



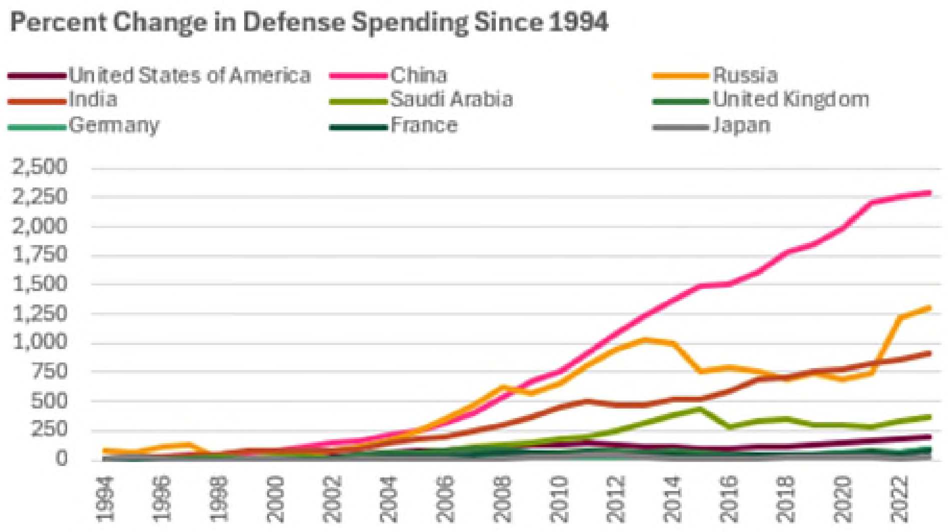
Source: US Census Bureau, IMF, The Hartford's Global Insights Center

US-Europe: Ties under strain in some cases

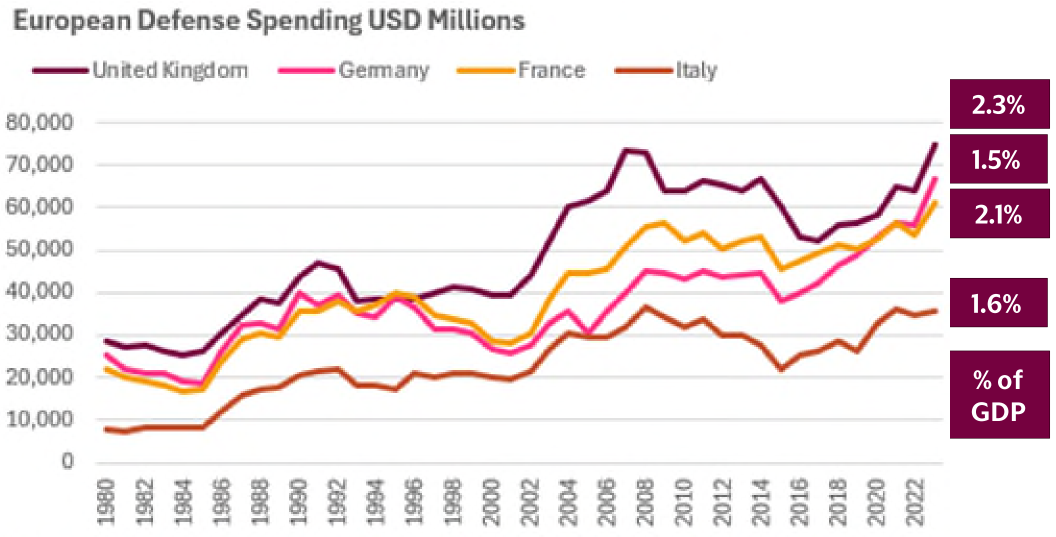
- US is still a major defense spender, but China's defense spending has grown sharply.
- Europe's limited military spending in NATO has caused US-European tensions. Europe is being asked to spend more on defense to meet its NATO commitment.
- NATO alliance is fracturing due to economic policy and differences over foreign policy and defense spending.



Source: Stockholm International Peace Research Institute, The Hartford's Global Insights Center



Source: Stockholm International Peace Research Institute, The Hartford's Global Insights Center

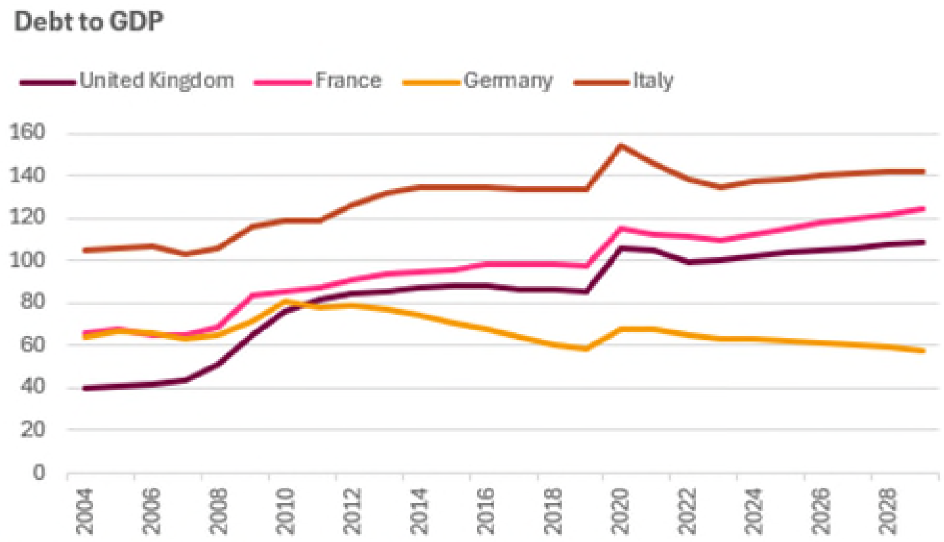


Source: Stockholm International Peace Research Institute, The Hartford's Global Insights Center

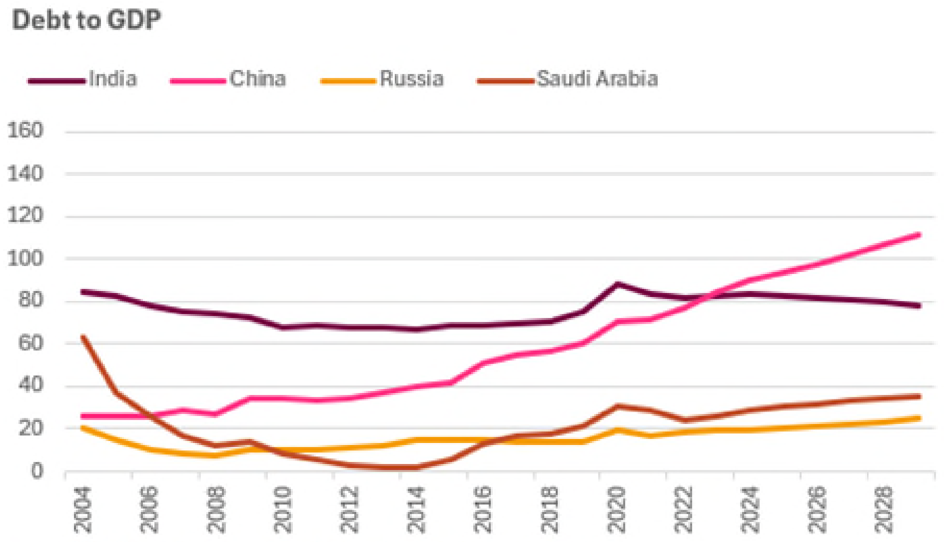
US-Europe: Fiscal space may collide with geopolitics

Europe may start to build new partnerships to offset headwinds in US relationship

- Debt to GDP in many European nations is above 100%, except for Germany; high debt nations have limited space to spend on defense.
- Or Europe will need to pull back on social spending
- Asia has ample fiscal space to spend on defense, giving countries the capacity to build their military capabilities.
- The balance of power therefore may shift to nations with fiscal space to spend on defense, and the ability to grow their defense manufacturing industries.



Source: IMF, Haver Analytics, The Hartford's Global Insights Center



Source: IMF, Haver Analytics, The Hartford's Global Insights Center

Demographics: Ageing nations may face added headwinds to defense capabilities

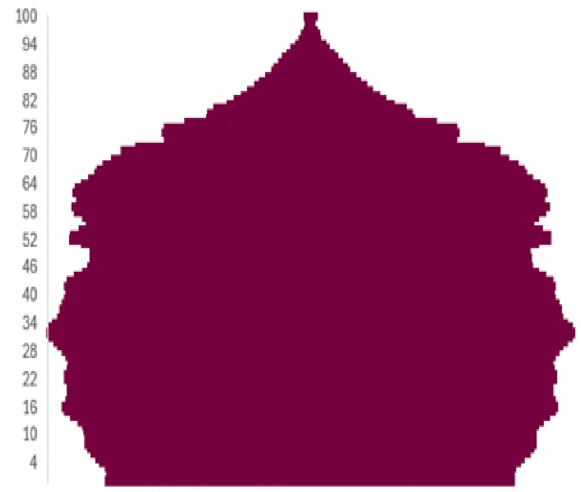
Ageing population in Europe will require more government social spending while available talent for army declines

- Demographics will become a challenge as Europe is ageing and governments need to allocate more for social safety net. Do they prioritize social spending, defense, or debt reduction?

- Ageing nations may have limited human capital for their armed forces too.

- India has a very young population, fiscal space, strong economic growth, and a local defense manufacturing base giving it defense and foreign policy autonomy.

United States Age Distribution



Source: United Nations, Haver Analytics, The Hartford's Global Insights Center

China Age Distribution

Source: United Nations, Haver Analytics, The Hartford's Global Insights Center

Germany Age Distribution

Source: United Nations, Haver Analytics, The Hartford's Global Insights Center

India Age Distribution

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