Nachgefragt bei CxOs

Podcast Transcript

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Speaker
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Johannes Trenka
Welcome to our latest edition of #tomorrowtoday, our Accenture Strategy podcast. My name is Johannes Trenka, and I'm a partner at Accenture Strategy and responsible for our European Sales, Marketing, and Growth practice. I'm honored to welcome Professor Dr. Julian Hinz today, a professor of International Economics at the University of Bielefeld and lead of the Research Group Trade Policy at the Kiel Institute for the World Economy. Julian, great to have you; very much looking forward to our conversation.

Julian Hinz
Thank you for having me here.

Johannes Trenka
You're an expert on the field of International Economics, especially when it comes to trade policies, sanctions, migration, and tariffs. And this is what we want to talk about today. The need for governments and corporations to build long-term resiliency. And as part of that, we will, of course, touch on tariffs, potentially the word of 2025. Let's see. And this is not only a German but even more a transatlantic and global topic. So, for this episode we switch into English for the first time. Thanks for volunteering for that. Let's jump into it. My first question: The last few months have seen some profound disruption in global economic systems. It seems almost unprecedented. Much of the catalyst has come from the US. And the question would be, what do you think? In a broad sense, what's the motivation for the US to act in that way?

Julian Hinz
You just said that "tariffs" is maybe the word of the year. I think that's the question of the year. It's a big question. The

US has embarked on this journey of imposing tariffs at, as you said, almost unprecedented heights. We haven't seen this level of tariffs in more than 100 years. You have to go back, I think the last time I checked was around 1905 or so, that you have to go back to in order to get tariff levels at this height for the US, meaning that currently the US on average charges a roughly 20 percent tariff on any and all imports into the US. Whereas just six months ago, we were at roughly 2.5, 2.6 percent, depending a bit on how you average those numbers. Why do this? Why impose tariffs? Why impose these import taxes as they are? Why impose them on yourselves, on your own consumers, and on your companies trying to import their intermediate inputs into their own production processes? And I think if you were to ask different officials in the US administration, if you were to ask President Trump, I think you'd get multiple different answers. And they've been pushing for different stories the entire time. So first, it's to bring back manufacturing to the US, bring back industries, which, arguably, you know, over the past 30 years, 40 years, have vanished really in parts of the US. And there's huge discontent over this. I mean, if you're in a town that was somewhere in the Midwest or in maybe even further east, you had these nice big industries with supposedly well-paying jobs. And then suddenly, over just a couple of years' time, those all disappear. That creates political discontent. So, I think it's quite clear that this is one motivation, to bring them back. But then I think it's also a false narrative to say that tariffs will bring back those jobs. They won't. I don't need to tell you, but if you if you start out with a new production plan from scratch, those look very different compared to today. So that's, I think, narrative number one. Narrative number two is, it generates revenue. And so, the idea was to lower other taxes and impose higher taxes on imports. Then there was talk about sort of a paycheck, a decent paycheck for every American to receive. There's this new pot of money that the American government is having, so let's just redistribute that to all the American consumers. But, I mean, you know this already, these are three different storylines, and they're not compatible with each other, right? You can have either lower imports so that your own industry flourishes, or you have money to spend or to lower other taxes, or you have money to redistribute. They're not compatible. And so that's why I'm thinking this is the question of the year. I'm not sure whether they know, to be honest.

Johannes Trenka
Yes, totally get your point. And indeed, it's not really clear for a lot of bystanders to see where this strategy goes to, especially when it comes to the question of where those import tariffs will end, probably with their own consumers. Let's see. But let's open up a little bit even more. National security or decreased national security can also cause economic disruption. So how much of the recent instability do you think has been amplified by these changed security conditions?

Julian Hinz
Well, I think if you look at the past couple of years, we've seen a big change in—at least perceived—economic security. So, starting with more and more

frequent imposition of sanctions between countries. It's not only a buzzword, sanctions, but really, you see that this policy tool has been used much more on grounds of national security. And then, that has economic implications. And then you also see that these political tensions seep into the economic discourse when you're saying, oh, you know, we need to be able to produce X, Y, and Z ourselves in case of political conflicts, in case of—worst case—war. And then you've seen disruptions. As we've seen over the past, let's say, year and a half, the entry into the Red Sea has been effectively blocked for Western shipping by the Huthis. You've seen these sorts of threats. Right now, we've been talking about the possible closure of the Hormuz Strait. So, these are serious threats. Governments have reacted to this, and there's been a lot more talk about we need to build resilience, which makes sense, to be honest. The question is how to build resilience. It's not the government that imports and exports. It's firms that import and export. So, I think this is really on firms to think about how to become more resilient. And that would ideally, not necessarily, but ideally, make whole economies more resilient.

Johannes Trenka
Yes, resilience is a good keyword. As a consultancy, of course, we believe corporations and countries need to be as resilient as possible in order to have a flourishing economy and trade exchange. Given that context, from your perspective, who has been able to be most resilient? Is it too simplistic to think of that at a national level, like the US, China, Europe, or on an industry level? Or is it even more nuanced, more differentiated than that?

Julian Hinz
I think that's very clear: it depends. So, you know, for some questions, I think it's obvious that there has to be some—at least—guidance from the national level or even at the EU level for European Union member states, where sort of a grand strategy is necessary to secure, for example, critical raw materials. I think if every company by itself tries to figure out how to do this, that's not going to end anywhere. So, you know, there, I think it's quite clear that it's quite necessary for governments or supranational institutions to step in here. But then I think lower levels are more responsible for this. And coming down to firms deciding where to source from, just saying, oh, you know, we need to step back from China, it's not a very smart thing to do. I think diversifying should be the order of the day, to think about, okay, in case something happens in China. And this doesn't necessarily need to be political things happen in China. It could just be something that we've seen over the past year and a half, where suddenly it takes a lot longer to ship stuff via maritime transport from China to Germany to the EU because of the closure of the Red Sea, that you may want to have a second supplier or a third supplier or at least some ways to divert, at least for a short run, your intermediate inputs. Same goes for market. Isn't it for export markets obviously, that you don't want to be exposed only to this one country? And this one country may be Germany. So, in general, diversifying seems like a sensible thing to do. It's costly at first, but in a way, you're paying an insurance premium for that potential thing that could happen

at some point in the future. And then if you're well diversified, well, it's not great still, but it's not fatal.

Johannes Trenka
Maybe I'll double down again on that question. I know that you also did some research on China and the implication with U.S. tariffs when you look at the three big blocks, economy blocks, in the world—the US, China, and the EU. And I think it's very unclear to say who will succeed the most because it's so dynamic. But when we look at the moment, who do you feel is, you know, in a good position, in a strong position, whatever you want to call it, and who maybe needs to be more careful and consider all the implications of the actions that might be taken from the one or the other country? Is it easy to say between those three? Who is in what position?

Julian Hinz
No, I don't think it's easy, but I think there are some hints what's going on. So, I think the way—if you just look at reactions—the Americans did back down in terms of tariffs against Canada, for example, when the Canadians put export tariffs on power supply to Michigan. Right? So, they said, oh, you know, we're going to effectively restrict access to our energy supply to you. And so that was one quite clear mechanism that induced the Americans to maybe back down a bit towards Canada. And so, in that sense, you know, from the outside, you would think there's this one big economy and then there's this tiny, comparatively tiny, economy right next by. But, you know, it's not all about, you know, the sheer gross power, economic power, that a country has, but some other levers that countries have. And in this case, this was quite successful. When you talk about China and the US, in a way the Americans are hurting themselves. I think that's quite clear. You know, they're imposing tariffs on their own imports from their suppliers of these consumer goods, but also intermediate goods. And if you look at it just from the outside, it's the Americans that need the physical stuff, whereas the Chinese, sure they want to sell to the US, but in the end, what they're getting it's not the physical stuff, but they're getting money back. That's the other end of the bargain. But from that point of view, I think it's quite clear that it's not necessarily the US that has the power here. The other thing that's happening, obviously, is that the US is picking fights with everyone at the exact same time, whereas for China, yes, the US is a very important trading partner, economic partner. Roughly 15 percent of Chinese exports went to the US before this started. But it's 15 percent, right? So, it's no more than that. And so I think that should tell you something about relative power. And then the EU, I think, is a very interesting case because so far, I think the EU has reacted calmly and, I think, in a sensible manner. They know that the Americans are hurting themselves. So as long as it doesn't hurt us that much, let's maybe wait it out and let's see what happens. You know, as long as those tariffs against the EU are not discriminatory in the sense that the EU's companies are very disadvantaged compared to other companies in the rest of the world. Maybe we'll just wait and see. And so, I think in a way it's a bit ironic that the EU is often quite slow

to respond. But here it's sort of a secret superpower that we have, that it's just that there was no way to react quickly and maybe this was a good thing for once.

Johannes Trenka
It's a very interesting interpretation of our bureaucracy in the EU. But I totally get your point. Sometimes the slower hand is the upper hand in the end. But we will come to this even more. But thanks for the first glimpse of your perspective when we look at the three major blocks. And as you might know, I have spent a lot of my personal career working with the auto industry. And right now, as we speak today, we are sitting in the heartland of the German car companies. Actually, I'm quite close to Hannover, Wolfsburg, where one of the biggest sites is sitting. And a 25 percentage point tariff and fees on cars has—at least to me—the potential to hugely damage this industry. So, the question is, are these specific tariffs just headlines to force a deal, or do you think they mark a more permanent shift in trade dynamics?

Julian Hinz
We just said that the EU is not that affected, Germany is not that affected by those tariffs. This is obviously an overall economic assessment. If you drill, look into more finely grained sectors, then very clearly, actually for Germany, for most of the EU, the automotive sector is one of the most hurt sectors. And that's obviously so. That's driven to part that right now there are 10 percent tariffs on virtually all imports into the US. And then there's this 25 percent on cars. And so, they are the most affected. Even though a couple of weeks ago, the US administration reached some temporary deal with carmakers for rebates, that can be made when the final vehicle is sold in the US. And apparently that actually does recover quite a bit of the cost that's imposed by those tariffs. But these tariffs on cars come at a time for the German car industry when it's already not the prettiest picture in general. And this is so it definitely doesn't make things better at this point. And you know this better than I do, but German car manufacturers had the US as one of the big markets that was very attractive. And so, obviously, that hurts. What the bigger implications of this are, I think we'll see. The UK got some sort of deal that exempts, I think, 100,000 cars from tariffs. Whether the EU will cut a similar deal, maybe we talk about this in a moment. But we'll see what happens. I think, as it is right now, the automotive sector is hurt the most. And that, obviously, is problematic and also politically meaningful because, historically, the car manufacturers have had a big influence in Berlin and also in Brussels. So, we'll see what happens here.

Johannes Trenka
I ask again on this because this is close to my heart. Would you say it would be wise for the current German administration to focus a lot on that very issue? You said in the beginning, on an overall view, it's not that much of a problem when you look at the overall economy. Since auto is not a small thing in Europe and, of course, much worse, so to say, in Germany when it comes to the impact, would you say this should be a focus topic for our government, or would you say, keep in mind that the auto industry is one of the major industries in our country?

Julian Hinz
It's definitely a big share of German GDP, of European GDP. But I think, you know, depending a bit on how you count, we're talking about 4.5 to 5 percent of German GDP, which is sizable, but it's not that this is the end of the world, neither for the car industry nor for Germany. You know, this obviously would mean that severe effects for some companies may be more than for others. I think there's one French company that is not exposed at all. They don't sell any cars on the US market. But sure, if a big share of your sales went to the US, this is hitting hard. And so, looking at Germany, 4.5 to 5 percent of German GDP is directly related to the car industry. I think it's roughly 800,000 jobs that are connected to the car industry. But again, if these 25% tariffs persist, it doesn't mean that those 800,000 people are going to lose their jobs. No. It's a hard hit. And yes, I mean some people may be directly affected by this, but—I doubt this, I strongly doubt this—there's no way that this is essentially the end of the German car industry—not because of tariffs. You know, there may be other structural things that are happening. And as I said before, it most definitely doesn't help at this point in time, but this is not going to be the cause for this, I think. And if you look broadly where German exports go or where German sales go, roughly two-thirds of what's produced in Germany stays in Germany. Roughly two-thirds of what's exported outside of German borders stays in the EU. And so, US sales for German companies on average—goods sales, I should say, not services, but goods sales—are roughly 10 percent of everything that's exported. So we're talking about roughly 3 percent of German GDP. It's a sizable share, but we're not going to see a drop by 100 percent in exports even with the 25 percent tariff—if that should stay—or 10 percent on all other goods. So, I think we should keep calm, essentially, and don't try to be coerced into making some concessions to the US that are really not necessary, I think. It's an important market, but it's not the most important market. That clearly is the EU.

Johannes Trenka
I think it's very good also for our listeners to keep that in mind. I heard those numbers from you before, and I think they are very, very impressive to understand how much is really going to the US and how much we are more dependent on the EU. I saw also a clear indication of where our focus should be. But to bring us up again, when we stay in Germany, but a little bit away from the auto industry to a more national level—how do you feel we are prepared for what's been initiated with the limitation day of the US? Are we in a strong position? Are we in a good position? Chancellor Merz was in the US not long ago. I think the overall perception was that he had a good meeting. I think also, when you look at inner politics, it seems that there is a momentum again. People feel structure and see a perspective. But that's maybe my view from the outside. Interesting would be your more expert-driven view, supported by data. So, do you think, as a German, we are in a good position? Or are we challenged?

Julian Hinz
No, I think there are plenty of challenges out there, but, in general, it's become a more insecure—at least a perceived

more insecure—world out there. But again, as I just said, I think there are some easy, straightforward things to do and to, at least, make up for those negative effects that we're seeing or potentially seeing. So, I think what the new current government is talking about, you know, cutting back on bureaucracy and on red tape on lots of things and also pushing that message to Brussels. And I think that Brussels has gotten the message. It's obviously sort of a straightforward thing to do that everyone's talking about. But I think we can have hopes that there's actually something changing now. So that's the first thing, right? Making things easier to unleashing economic activity at home by just making it a bit simpler in some ways is already something easy to do. But then the other thing is that in terms of EU integration, I think there are lots of low-hanging fruits of things that can easily offset negative effects that we're seeing from the more insecure world out there. You know, in policy circles it's quite clear, you know, the capital markets union. We need easier capital movement across European borders. I think it's straightforward. But, we've been talking about this for months or years now, and, maybe now, because of this outside pressure, there's actually some impetus in doing so. And then the last thing that the EU, and this is at the EU level, should be doing—and actually, Chancellor Merz just said this, ago in his address to the German parliament—is that now is the time to find other trading partners out there that are, in EU parlance, you would say, like-minded, with whom we don't have a free trade agreement yet. And free trade agreement here really means, you know, let's stick to tariffs. That's stuff that's been decided in Brussels and in Brussels only, meaning that not every member state needs to have its own go at it and say, oh, this is great, or this is not. We see this with Mercosur, for example, which is not a huge market in general for European economies, but for some sectors, it could actually be quite interesting to have a deeper integration there, espe-cially when it comes to raw materials. But still, I mean, we've been discussing this in Europe for years, and the French are still thinking about whether they should agree to that trade pact or not. Because it's a very complex deal, because it's not only about trade policies, it's also about investment policies and so on. So, if you keep it at the simplest level, trade policy is taking tariffs to near zero or to zero. That's stuff that's being decided in in Brussels. And why don't we have a free trade agreement with Australia? It's incomprehensible, totally obvious. And so, I think now is the time to see, okay, who else is out there? And there are countries that are in a similar position as us. And, you know, we can form an alliance of the grown-ups, so to say.

Johannes Trenka
It's a very interesting wording. But if I get this right, Julian, you're saying there is there's one level on the EU, there might be some decisions, how to react, to how to act. And then there is, of course, the national level within the European countries. There you say this doesn't necessarily need to be the same for each and every country, so there's some freedom. So, you're saying to not perceive the EU as a block and act all in the same direction, but there might be freedom for countries within

the EU to have, let's say, an own agenda. Is it correct that you would also recommend going down that route?

Julian Hinz
I don't know. I guess cutting back regulation from Brussels would, to a certain degree, give more flexibility to national governments, I guess, or national powers. But that's not necessarily what I meant. I think, you know, it's quite clear that at all these different levels, people have understood that we're imposing the rules before things happen. I mean, look at—and this is really not my field of expertise—AI stuff. And the first thing that happens in Brussels is like, okay, we need rules. Yes. You know, there are a lot of sensible rules that you should give yourself, but you should try to leave space for innovation. And I think that's absolutely crucial. There's also a lot of red tape. Further EU integration, I think, is really hampered by, you know, lots of rules everywhere that are making life difficult.

Johannes Trenka
This is my opinion, that we really need a very strong EU with all the downsides you just described. But overall, that's the principle. So, assuming that, we need this strong EU. You somehow touched upon that we have a lot to lose, of course, but we also have significant bargaining power. What do you think should be—very explicitly—the reaction to the tariffs towards the US from the EU perspective?

Julian Hinz
Oh, making clear that we're a continent and a group of 27 countries. We're not 27 separate countries, but we're a union of 27 economies that has a huge market, 500 million people, an enormously big market that's very important for the US as well. It's not a one-sided thing. If we were to negotiate individually 27 countries with the US, I think it's quite clear that that deal that each of us would be getting is much worse than an EU deal. And so, we have a big leverage there. The EU is a huge market for US services. So, Donald Trump and his administration like to talk about the trade deficit that it has with the EU when it comes to goods. But if you include trade in services, we're nearly balanced. So, we do have a very balanced relationship. And that only speaks to the fact that, you know, international trade works. The US is really good at services, apparently. And we talked about those jobs, those manufacturing jobs that were lost in the past decades. But at the same time, the US does not have a problem with unemployment in general, right? So, there's a huge and booming services sector that is exporting a lot to the world and a lot to the EU. And I think it should be made clear that two of us, so to say, the EU and the US, are really complementary. The EU is, to this day, very good at producing stuff. We're great at producing cars. The US is great at producing services. International trade works that way, that we each have our comparative advantage, and we make use of that. That's why we're both better off. And I think that's something that should be highlighted. And that means that we're letting in US services without tariffs. There are no tariffs on services. This is not a thing. There would be ways actually to do that. But it's never been the thing, and it shouldn't become a thing. But at the same time, that means

that the US should be granting zero tariffs to EU imports. And so, I think on the agenda should be: let's not do this tariff stuff. Let's really not do it at all. Let's rather think the other way and say bilaterally we lower tariffs to zero. We can also talk about non-tariff barriers, regulations, bilateral regulations. But then we're coming back into this territory where it becomes very difficult at the EU level to decide this. So, tariffs at zero, I think, should be the goal. To be honest, I doubt that we're going to get there. Because we see that the US/UK deal, and essentially what the UK got, was status quo. 10 percent tariffs and everything, some carve-outs. So, at the Kiel Institute we have this kite model. It's an economic model engine, so to say, with which we can simulate the world, how it would be in different trade policy scenarios. And we ran those numbers that the UK got out of this agreement. At first, I thought there was a problem with the model because the results look identical to the ones that we started from. And it's just that it's economically completely meaningless. I mean, entirely meaningless. This is a purely political thing. And calling this a full and comprehensive deal is, let's say, interesting because it's not. My opinion is that there will unfortunately be some tariffs left, even for the EU when it enters into a deal.

Johannes Trenka
But it's interesting your remark on the quality, so to say, of the US/UK trade agreement, and also, I think, important for everyone to know that it is more a political one than a qualitative one. That was part of my question. The other part of the question was, do you think that an unintended consequence of the US tariff position has been to bring the UK closer back to the European partners? And maybe to broaden this even a little bit, also to bring the European partners closer together in a more unified perspective on their own interests?

Julian Hinz
I think so, but I'm not sure how much this effect is based on tariffs. I think for every single European capital, it's clear that if they were to individually go to DC and negotiate tariffs for themselves, they would be in a very bad position compared to having the Brussels, the EU commissioner, go there with his team. So, I think that it's quite clear that it's another case for the EU, that the EU works when it comes to trade policies. I think, in general, obviously the threats are not only about tariffs. There are, you know, security threats. Effectively, there are security threats. Withdrawing from or threatening to withdraw from NATO or, at least at hinting at it already, means that Europeans see that, we better stick together. And I think it's very interesting to see the language used in the EU and in European capitals that it's "us", and by "us" meaning the Europeans, not us, the Germans, us, the French, but it's us, the Europeans, that have to do stuff. But as with any crisis the EU has faced, I think this is one that makes the EU stronger in the end. And in that sense, we will have to thank the Trump administration a couple of years down the road. We'll see. But hope says we're closing ranks even more.

Johannes Trenka
I was coming to the same conclusion as we're coming to an end of our discus-

sion. I'd like to end on a positive note. And I think it might be a side effect no one really expected but might also be the moment the EU needed to get back together again after so many years, decades maybe, of slow decision-making and all the stuff we discussed. There's one thing left. And I think this has been incredibly insightful and also inspiring—the data you presented and, you know, the complex context you gave to us in that very question. So what does it take, Julian, to get to your level of expertise, to get in the position you're currently in? And what would you recommend to people who would like to pursue a similar career?

Julian Hinz
For me it's incredibly exciting to be able to bring my interest in data and wanting to know about facts into sort of the political realm. I think that's what drives me. So I have always been super interested in—I mean, nowadays it's called data science—trying to tease out the facts and the information that's there out of the data that's out there. I think we all benefit from having a very factual analysis of what's going on. And that hopefully feeds into the political discussions. I've always had this deep interest in both the technical side of data and programming and all of that, and then there's political interest. And I think this position that I'm in right now really allows me to bring those two things together. And if you're interested in that, I think that couldn't be more exciting times. You know, data availability is just enormous, the type of data that we can work with now at the Kiel Institute. We have global coverage of shipping data. So for every single commercial ship out there globally, we know, you know, every 15 minutes we get a position, a ping, so to say. We know where all the boats are. And that's data that we can use to analyze where are our imports going to be in a couple of weeks down the road. Because we know it left the port in Shanghai, and it's going to arrive in Hamburg at some point. And then, oh no, actually it takes longer because, you know, the Huthis are shooting at ships again. So it really does connect data-driven insights and the political implications of that, which I think is very interesting, or, you know, excites me every day. So if someone is into that, then I think, work at that intersection. You know, there's unconventional data out there that we can learn from for informing governments but also informing companies on how to best make use of that information.

Johannes Trenka
And I think it's once again impressive to see that a deep, deep interest in data has nothing to do with a lack of emotion, compassion, all that you just brought to the table. The level of excitement is really outstanding. So I think it's wonderful to see that this both works together. So thanks again. This was really, really insightful. This was really, really fun. And I think we all learned a lot. I guess there will be more. This is the most dynamic thing I've seen for years. So let's see if we meet again. Until then, Julian, all the best to you, and thank you very much.

Julian Hinz
Johannes, thanks a lot for having me. This was fun.