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Views From the Stream

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Dr. Evil, Austin Powers, & The Fracturing of the Global Order

By,

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One of my favorite comic epics stands the Austin Powers triptych, a spoof on James Bond and the 1960s spy epics. In these three movies, Mike Myers, who came to national attention on Saturday Night Live, stars as Austin Powers, the globe trotting spy with a supersized libido working to thwart Dr. Evil. Of course, Dr. Evil plans to take over the world. Despite Austin Powers constant bungles, misjudgments, and failures, he triumphs in the end, thwarting Dr. Evil and his plans. Along the way are many laughs along with zinging satire of the 1960s London free love culture and spy thrillers.

While one might wonder how Austin Powers relates to the Global Economy, there stands a simple explanation. China wants to dominate every industry across the globe. From 1995 to 2015, countries did not recognize this overarching goal. However, beginning mid-decade, countries began to understand China's long term ambitions to dominate global commerce. As a result, over the past decade, they began to react to this reality. While the first mover, the Trump Administration, moved aggressively to stem the tide in 2017, other countries around the world felt less compelled to act at such scale. Unfortunately, due to these half-hearted measures to address Chinese ambitions, there occurred a number of bungles, misjudgments, and failures to slow the growth in Chinese exports and industrial espionage. However, by the early 2020's, it became clear the extent of the issue that countries faced. If China decided it wanted to control an industry globally, it merely built 2+ times as much capacity as it needed domestically. And it then exported the surplus below cost driving out foreign competitors. Its companies could afford to do so as local governments provided subsidies to keep the companies in business. And this stood on top of the incentives that the local and central government heaped on them to build capacity in the first place.

A simple example from the 2012 – 2018 period will make clear this modus operandi. This revolves around the manufacture of flat panel displays. China built excess capacity in that industry over this time frame. By 2015, the country began to flood the world market with LCD TV Panels driving down prices.

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The global industry soon lost cash for every TV Panel it produced. To enable its companies to continue to flood the market with below cost product while losing billions of dollars, China subsidized its manufacturers filling the cash flow hole to enable them to stay in business. This forced manufacturing capacity to close elsewhere in the globe as competing companies did not receive the same backing from their home governments. Today, Chinese companies dominate production. In fact, in January, Sony, one of the last holdouts, which produces high end TVs and audio through its Bravia division, just announced it would sell a 51% interest to TCL, a Chinese entity, thus cementing China's dominance of this industry.

Fast forward to today. China's auto industry stands a modern example of this policy. Domestic companies in China built capacity totaling almost 2x the demand from domestic consumers over the past five years. As a result, the industry created large excess capacity. To move vehicles, companies priced aggressively. This led them to sell automobiles below cost with local governments filling the gap of negative cash flow. In response, the Chinese Government attempted to push the industry into rational behavior in the first half of 2025 through verbal cajoling to little avail. It ultimately became so concerned with this state of affairs that the Central Government announced a new policy in December 2025. That policy put new restrictions on car discounts. However, with the support of local governments, auto companies appear to continue to ignore Beijing. Recently, in an attempt to rein in the industry, the Central Government removed EV purchase subsidies. As a result, EV purchases fell 20%+ year over year in January. One might note that with 12.8 million NEVs (New Electric Vehicles) sold at Retail in 2025, this might create an additional 2.5+ million units of overcapacity. Despite this, the Top 8 Companies by volume in China look to increase their sales by 1 million units in 2026 followed by another 1.6 million units in 2027. Where this 2.6 million units will go plus the 2.5 million units no longer consumed domestically stands a key question for 2026 and 2027.

And the answer appears as follows. To maintain its growth, the industry continues to rely on the export lever to make up for domestic excess capacity. According to the Council on Foreign Relations, China possesses the ability to produce over 55 million vehicles. Given Global Auto Sales of 80 million units, China's capacity could, in theory, supply almost 70% of Global Auto Demand. With domestic vehicles sales totaling just 27.3 million in 2025, this leaves a large production gap to fill. To do this, Chinese Auto Companies exported 7.1 million vehicles in 2025 bringing total sales for the industry to 34.4 million vehicles in 2025, a more respectable 62.5% of capacity. However, this required that 1 in 5 sales occur through exports, making China the largest vehicle exporter in the world. Part of Chinese export strategy stands to use backdoors and exceptions to gain access to major markets such as the EU and the US. Thus, China continues to focus on countries such as Belgium and Mexico as export destinations, with exports of almost 300,000 and 850,000 units respectively in 2025. Mexico clearly stands an attempt to bring autos into NAFTA, then move them into the United States. In Europe, tariffs of 17% to 35% only apply to Battery Electric Vehicles. Thus, China pushed the lever on Hybrid Electric Vehicles (PHEVs) in 2025 to double its share of the EU Auto Market. Given China continues to target exports in

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excess of 10 million units by 2030, it will need access to the EU and US to reach such a target. And this excludes the 2.5 million in vehicles its companies will not sell domestically in 2026 due to the subsidy halt.

As one might guess, this does not play well in capitals around the world. After stumbling for a decade, it appears that countries finally moved to protect their industry, a true Austin Powers moment. For example, despite China's foundational role in the BRICs, Russia and India moved to put limits on Chinese imports. In addition, China stands effectively shut out of the US due to moves by the Biden and Trump Administrations. Recent moves by the Trump Administration will force autos sold in the US to use no Chinese content by September, 2026. This possesses implications for Chinese auto suppliers. In addition, Mexico came under pressure to limit Chinese imports and imposed large tariffs on all Chinese goods. With over 50% of its economy related to exports to the United States, Mexico possesses little choice given the US leverage against its economy. Europe attempted to block China through tariffs of 17% to 35% on Electric Vehicles. This failed as Europe did not anticipate Chinese entities selling vehicles below costs or driving through the PHEV loophole. In response, it appears the EU will consider a mix of strict import quotas, require domestic content in vehicles, and force technology transfer for access. In addition, due to security concerns on EVs, the bloc may force all electronic content and software to originate from EU companies and to force all data processing to occur through EU controlled entities.

While the Global response stands haphazard, it appears that countries finally recognize that China will continue to grow its economy at their expense unless they intervene. Given the imbalance between Investment and Consumption in China, the country can only continue to grow if it drives exports. If export growth falters, its economy will face significant challenges. Thus, China will continue to drive exports unless other countries block them. (Please see *The Aging Dragon Economy & The Wartime Solution* dated December 31, 2025 for more details.) It stands a moment similar to the children's fable, The Emperor Has No Clothes in which a child points out the Emperor stands naked. This truth existed for the past 20 years. But countries ignored this reality as they sold capital goods to China to gain export sales for their companies. Now that China no longer needs their capital goods exports, as it built out its own capital goods industry, the reality started to sink in. Given the foundational nature of the auto industry for most countries' manufacturing, there exists little choice but to react to China's moves to undermine and eviscerate their domestic auto industries. And with Geopolitics overlaying this, it appears that these actions to protect domestic industries will accelerate over the next few years. State intervention in the economy always rises when the National Interest appears at stake. And that appears where the Global Economy stands. China's Export Machine likely will run into significant trouble as a result. With Exports driving 50%+ of its true GDP growth in 2025, this type of conflict likely will flare up across multiple industries as countries move to shore up strategic vulnerabilities and freeze out Chinese product in a more systematic manner. Thus, as in the movies, Austin Powers ultimately prevails over Dr. Evil after much hand wringing and nail biting and failures. Unfortunately, the script provides no laughs here.

Overlaid on top of this Austin Powers moment, where survival trumped theory, blocs around the world continue to move towards splintering as 19th Century Realpolitik comes to the fore. Today, with Pax Americana under pressure, due to underinvestment by the United States in its military over the past 20 years and the massive Chinese military buildup, countries realize they need to fend for themselves. Or fend for themselves until the US can come to their rescue to shore up their efforts. And they need to be mindful of the old saying, "When elephants dance, the mice get stomped." With the US now pursuing more nationalistic goals due to the challenge from China and the country less willing to sacrifice its economic interests for other countries around the world, the Global Order appears somewhat in a state of flux. For example, the EU continues to increase military spending as a percent of GDP. The goal appears to enable the bloc to defend itself in a major conflict with Russia. This belies the reality that the EU will still depend on the US to come to its rescue should a major war with Russia break out in Europe. However, it does provide the ability for the EU to stand on its own in the initial phase of any war.

Other countries around the world continue to look to themselves. India continues to invest heavily in building up its manufacturing capabilities, adding electronics over the past few years, hoping to displace China as a major global export power. As part of this, it continues its tech push with recent focus on AI. To protect its companies, it moved to limit Chinese imports in key areas of its economy. In addition to its traditional manufacturing push and technology ambitions, the country continues to ramp up military spending significantly to meet the threat from China on its border. While India and China both founded the BRICs, the border between the two countries in the Himalayas stands a fire keg waiting to explode. Both countries station hundreds of thousands of troops there and continue to fortify their sides of the border.

Halfway around the world, Bazil continues to bring in Foreign Direct Investment to grow its economy. Since 2010, this averaged more than 3% of GDP per annum despite its economic issues. (Please see https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BR .) Even countries such as Indonesia and Malaysia, which reside in China's shadow, continue to pursue economic policies that leverage their competitive advantages to drive economic growth. For Indonesia, it is resource nationalism that requires the value chain utilizing its mineral resources to locate in country. For Malaysia, it stands it 10,000 Advanced Manufacturing Companies by 2030 goal. With the US no longer the dominant force in the Global Economy as it stood in the 1980s and 1990s, countries continue to implement some form of Realpolitik that avoids getting stomped as elephants dance and that ensures the Global Economy will continue to fracture into new alignments that more suit the economic and security needs of each country.

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While some countries have yet to react to China's export thrust, such as Thailand, the moves around the world to limit Chinese goods' exports continue to grow. Countries now recognize the reality of the situation, having woken up from a dream state in which they failed to or, due to short term economic goals, deliberately ignored the truth. With reality staring them in the face, they possess no choice but to act. And for China, this will create economic issues as the decade progresses. With massive overinvestment continuing, given China's level of Gross Fixed Capital Investment, China's export drive cannot stop. However, it will now run smack into other countries' National Interest. For the Global Economy, the stakes stand high and tensions will rise as countries move to freeze out China. The resulting pyrotechnics will be reminiscent of an Austin Powers movie, potentially titled Austin Powers and The Red Drag On, where Austin finally prevails despite his incompetence but without the laughs.