

Deglobalization

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GLOBALIZATION effects

- POSITIVE EFFECT
 - FREE FLOW OF GOODS ,SEVICES, LABOR AND CAPITAL,GLOBAL GROWTH
 - **global value chain (GVC)** . During the 1990s and early 2000s, global trade was highly supported by a production process that is fragmented across multiple countries and hence increased trade particularly in intermediate products.
- NEGATIVE CONSEQUENCES
 - DISTRIBUTION OF WEALTH, MIGRATIONS, LACK OF INTERNATIONAL GOVERNANCE, FINANCIAL MARKETS VOLATILITY

AFTER 2008 - GLOBALIZATION TRENDS

- Global trade reduction
- Changing structure of international trade – from commodities to services)
- The maturation of the global value chain
- Stringent banking sector regulations
- Rising protectionism, USA CHINA trade war
- The slowing of the Chinese economy

- Recently, the character and tempo of globalization have changed. The pace of economic integration around the world has slowed by many measures.
- “Slowbalisation”, a term used since 2015 by Adjiedj Bakas, a Dutch trend-watcher, describes the reaction against globalization
- How much will a trade war launched by America’s president, Donald Trump, exacerbate it? What will global commerce look like in the aftermath?

12 significant factors

Global stops and starts

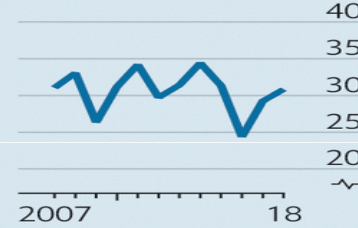
Trade in goods and services as % of GDP



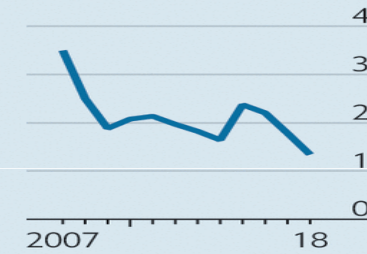
Intermediate imports as % of GDP



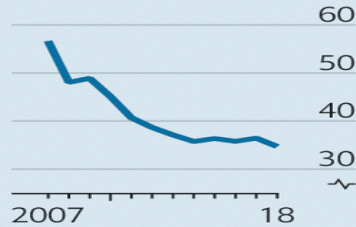
Multinational profits as % of all listed firms' profits



FDI flows as % of GDP



Stock of cross-border bank loans as % of GDP



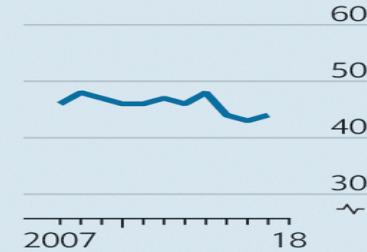
Gross capital flows as % of GDP



Share of countries catching up*, %



S&P 500 sales abroad, % of total



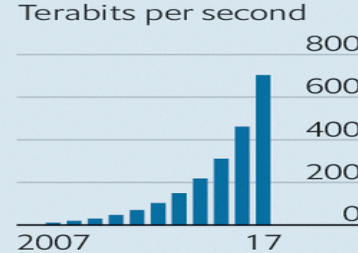
International parcel volume, m



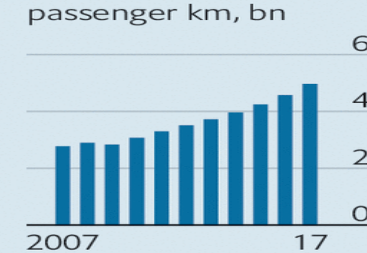
Permanent migrants to rich world, m



Cross-border bandwidth Terabits per second



International air travel, revenue passenger km, bn



Sources: IMF; UNCTAD; BIS; OECD; Bloomberg; IATA; UPU; McKinsey

*Compared with US GDP per person on a PPP basis

12 SIGNIFICANT FACTORS

8-NEGATIVE

- TRADE
- SUPPLY CHAINS
- MULTINATIONAL'S PROFITS
- FDI FLOWS
- BANK LOANS- INTERNATIONALLY
- ALL CAPITAL FLOWS
- COUNTRIES CATCHING UP
- S&P SHARES TRADE ABROAD

12 SIGNIFICANT FACTORS

4 - POSITIVE

- PARCEL VOLUME (e-commerce)
- MIGRATIONS- to rich countries
- Cross border internet
- AIR TRAVEL - INTERNATIONAL

STILL by OVERALL SUMMING

- World trade rocketed as a result, from 39% of GDP in 1990 to 58% last year.
- International assets and liabilities rose too, from 128% to 401% of GDP.
- Migrants flow grow from 2.9% to 3.3% of the world's population.
- On the first two of those measures the world is far more integrated than in 1914.

SEABORN TRADE – FLEET CAPACITY

- Global seaborne trade rose by 4% in volume terms in 2017, according to UNCTAD, the fastest growth rate in five years. Expansion was largely driven by increased industrial production in emerging markets, which account for 60% of shipped exports. Rising trade was accompanied by a 3.3% increase in maritime-fleet capacity
- Despite tensions between America and China, seaborne trade is forecast to rise by another 4% in 2018, and then by 3.8% annually until 2023.



The Economist

RECENT STAGNATION

- Trade has fallen from 61% of world GDP in 2008 to 58% now.
- If these figures exclude emerging markets (of which China is one), it has been flat at about 60%.

STAGNATION cont.

- The capacity of supply chains that ship half-finished goods across borders has shrunk. Intermediate imports rose fast in the 20 years to 2008, but since then have dropped from 19% of world GDP to 17%.
- The multinational firms share of global profits decreased.
- **Long-term cross-border investment by all firms, known as foreign direct investment (FDI), has tumbled from 3.5% of world GDP in 2007 to 1.3% in 2018.**

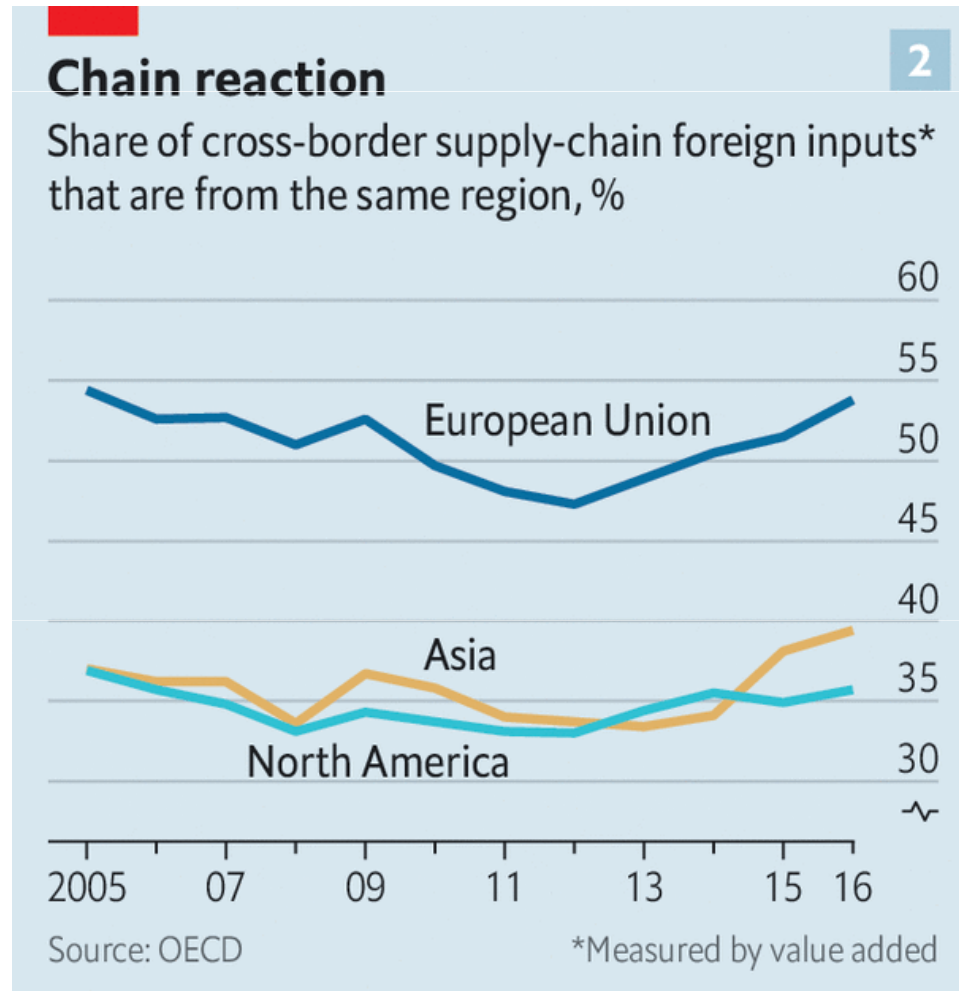
STAGNATION 3

- Cross-border bank loans have collapsed from 60% of GDP in 2006 to about 36%.
- Excluding rickety European banks, they have been flat at 17%.
- Gross capital flows have fallen from a peak of 7% in early 2007 to 1.5%.

NEW EFFECTS

- REGIONALIZATION OF SUPPLY CHAINS
- STRUCTURE OF INTERNATIONAL TRADE
- PROTECTIONISM
- US-CHINA TRADE WAR turning into technology war (see recent HUAWEI – GOOGLE ban of co-operation)
- GROWING POLITICAL TENSIONS

REGIONALIZATION

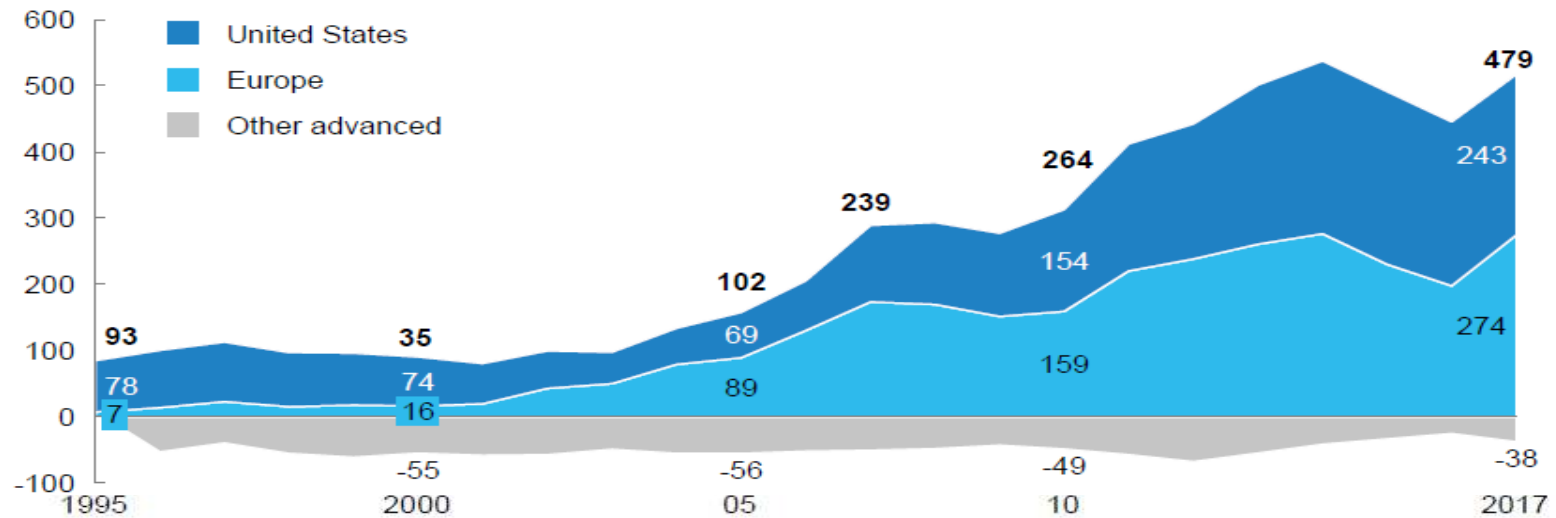


SERVICES GROWTH IN TRADE

Exhibit 38

Advanced economies' trade surplus in services has doubled over the past decade.

Trade surplus in services, all advanced economies
\$ billion



Advanced economy service flows
\$ billion

Exports	823	1,165	2,012	2,817	3,758
Imports	729	1,130	1,910	2,553	3,279

SOURCE: IMF; OECD; McKinsey Global Institute analysis

GVC-impact

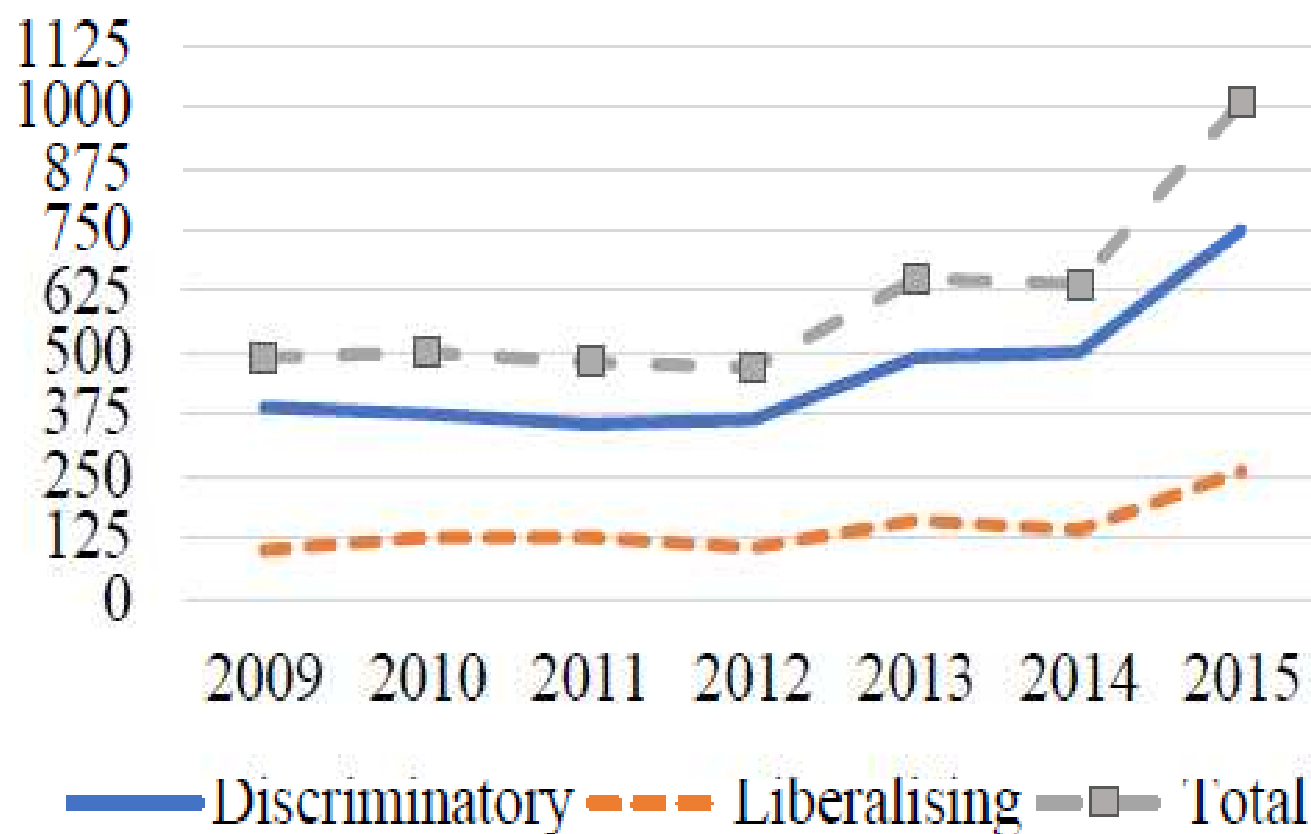
The maturation of the **global value chain (GVC)** is another reason for the slowdown.

- However, since the 2009, the contribution of GVCs in global trade has decreased in advanced economies.
- The deceleration in GVC participation is significant in the US and Japan

PROTECTIONISM

- In 2015, the number of **discriminatory measures applied was 50% higher** than in 2014. (G-20 economies accounted for most of the trade-restrictive measures in 2015)
- Subsidies, trade defense measures and import tariff increases were widely used
- There was a shift towards ; localization requirements, quotas and export incentives.

Figure 5: Number of Implemented Measures Worldwide



Source: Global Trade Alert Report 2016 (p. 25)

Table 1: Top 10 Countries Imposing Discriminatory Measures in 2015

Rank	Countries	No. of measures imposed in 2015	Share of world imports, 2014
1	USA	90	13.5%
2	Russia	86	1.6%
3	India	67	2.6%
4	Brazil	42	1.3%
5	Indonesia	42	1.0%
6	Argentina	36	0.4%
7	Japan	36	4.5%
8	UK	36	3.8%
9	Italy	34	2.6%
10	Canada	27	2.6%

Source: Global Trade Alert Report 2016 (p. 27)

INDIA MEASURES -example

- On December 26th 2018, India passed rules that clobber Amazon and Walmart, which dominate e-commerce there, preventing them from owning inventory.
- The objective is to protect local digital and traditional retailers.
- Draft rules revealed in July 2018 would require internet firms to store data exclusively in India. A third set of rules went live in October, requiring financial firms to store data locally, too.

SECTORS PROTECTED

- The 10 sectors hit the most by these discriminatory measures accounted for around 40% of world trade in 2015
- Basic metals have been affected the most in 2015 (143 times); discriminatory policy measures of import tariffs and export incentives in the steel sector.
- Transport equipment, a significant sector in world trade discriminated at 7.5%, .

Table 2: Top 10 Sectors Affected Most by Protectionist Measures in 2015

Rank	Sector	Number of times hit in 2015	% of world trade in 2014
1	Basic metals	143	5.4
2	Transport equipment	107	7.5
3	Agricultural products	100	2.2
4	Fabricated metal products	94	1.4
5	Special purpose machinery	90	5.3
6	Basic chemicals	86	5.3
7	Grain mill products and starches	69	1.5
8	Other chemical products	65	4.9
9	Meat, fish, fruit, vegetables, oils and fats	62	2.1
10	General purpose machinery	62	4.9
	All other sectors	835	59.4

Source: Global Trade Alert Report 2016 (p. 28)

CHINA IMPACT

- There were other reasons contributing to the slowdown.
- Lately, China's economy has slowed from 10% p.a. to less than 7% annually. It is rebalancing its economy away from exports and towards domestic demand.
- As a result, while China's exports contracted by 3%, imports declined by 14%
- China still accounts for 14% of world exports

FINANCIAL REGULATIONS

- There has been a sharp fall in international capital flows, mostly through reduced cross-border bank lending and borrowing as financial regulators imposed higher regulatory standards to mitigate risks of future crises (so called BASEL3- BASEL4 measures)
- This affected economic activities in countries that are largely dependent on foreign banks and have less developed stock and bond markets.

THREATS - 1

- **One is political.** Two of the three zones lack political legitimacy. The EU is unpopular among some in Europe. Far worse is China, which few countries in Asia trust entirely.
- **The second risk is to finance,** which remains global for now. The portfolio flows around the world are run by money-management firms that dominate the globe. The dollar US\$ is the world's dominant currency

THREATS 2

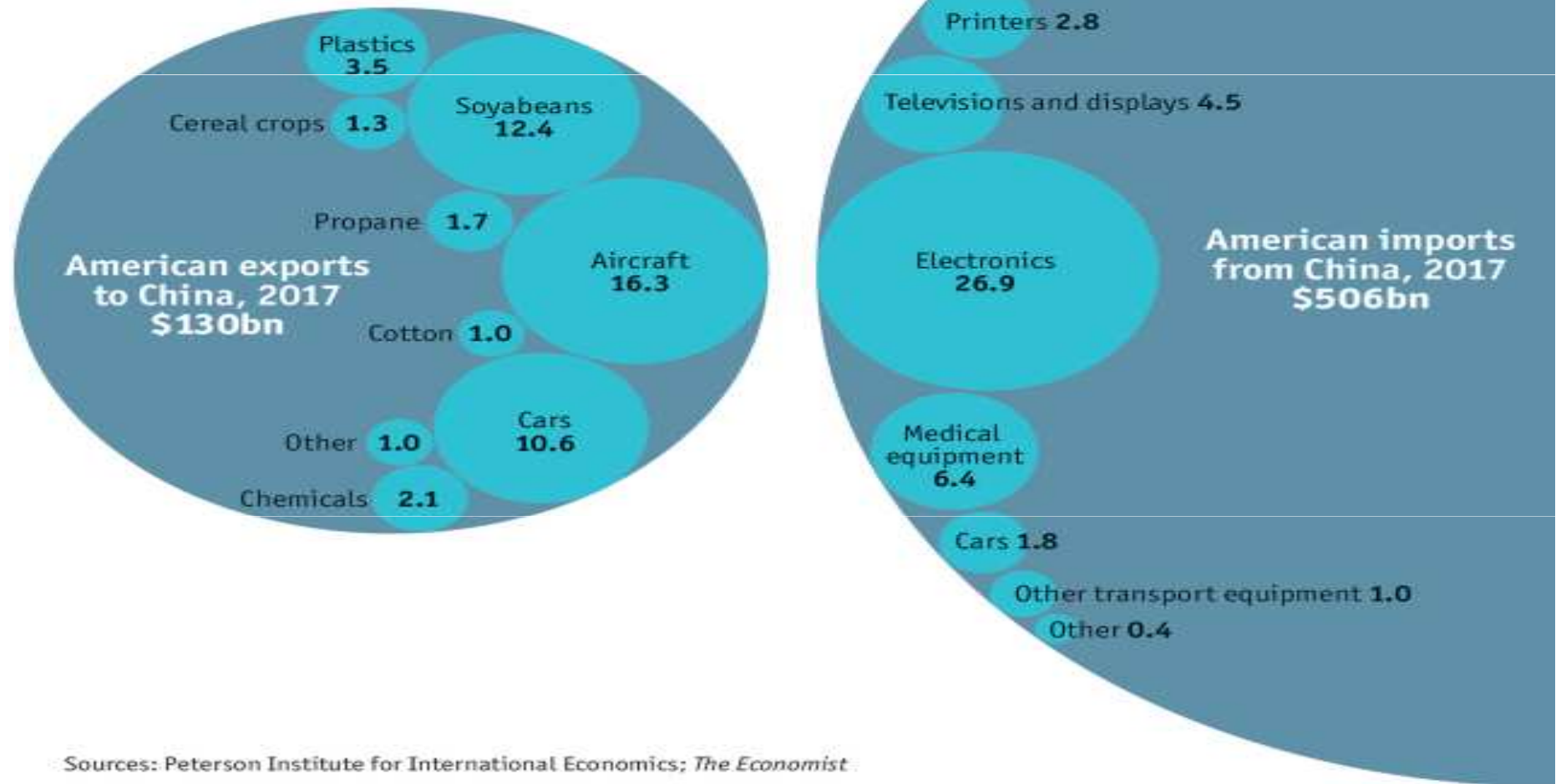
- **Over time this will lead other countries to switch away from the dollar, but until then it creates a higher risk of financial crises.**

.TRADE WAR -US - CHINA

Battle lines

Trade in goods, 2017

● Goods covered by proposed tariffs



Sources: Peterson Institute for International Economics; *The Economist*

Economist.com

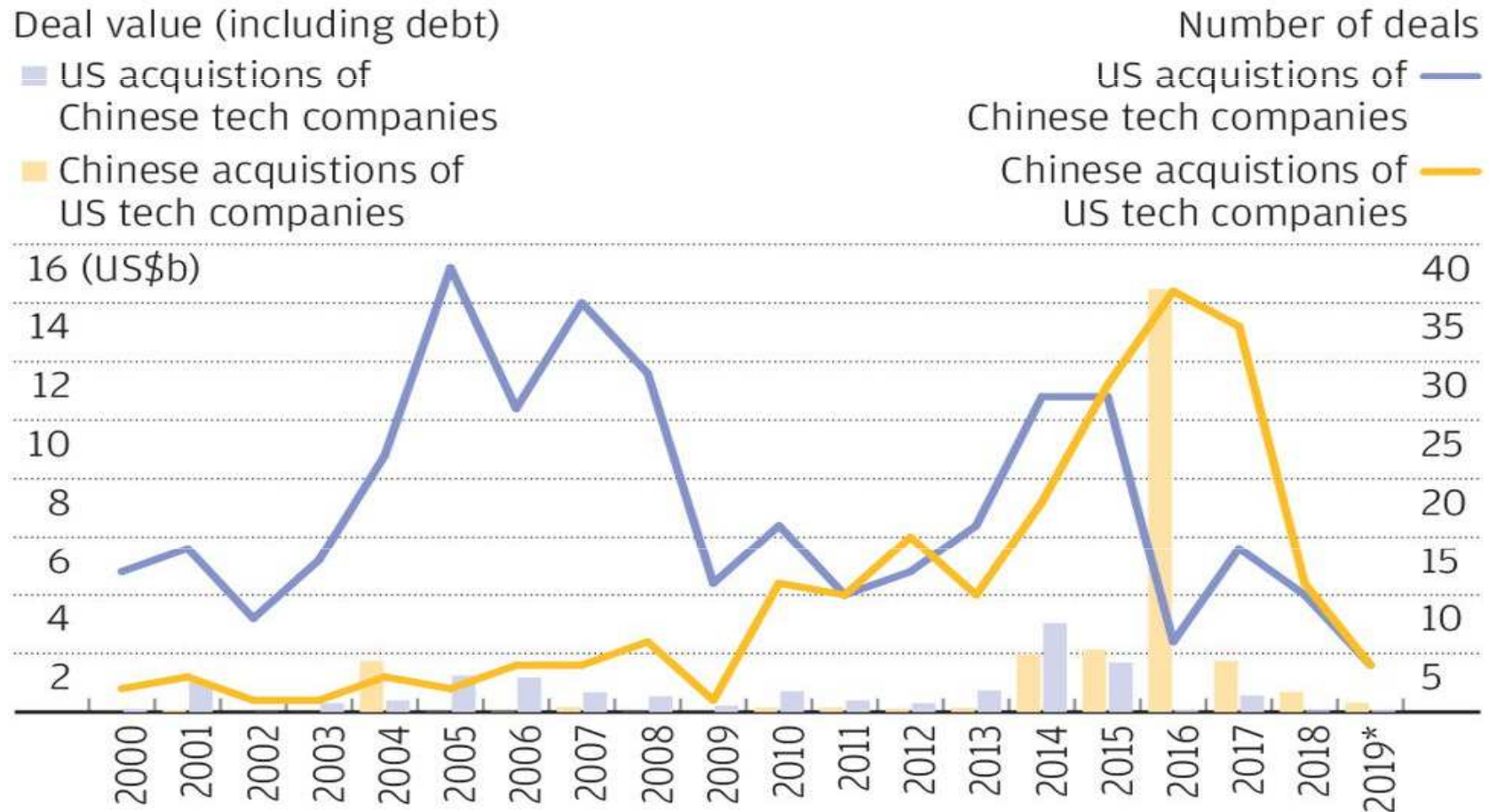
TECHNOLOGY WAR

- **In 2018, the US expanded the power of the Committee on Foreign Investment in the United States CFIUS to review mergers, and lowered the threshold to examine foreign investments in certain industries**

US-CHINA TRADE WARS

HIGH-TECH control

Tech deals between US and China



Source: Refinitiv

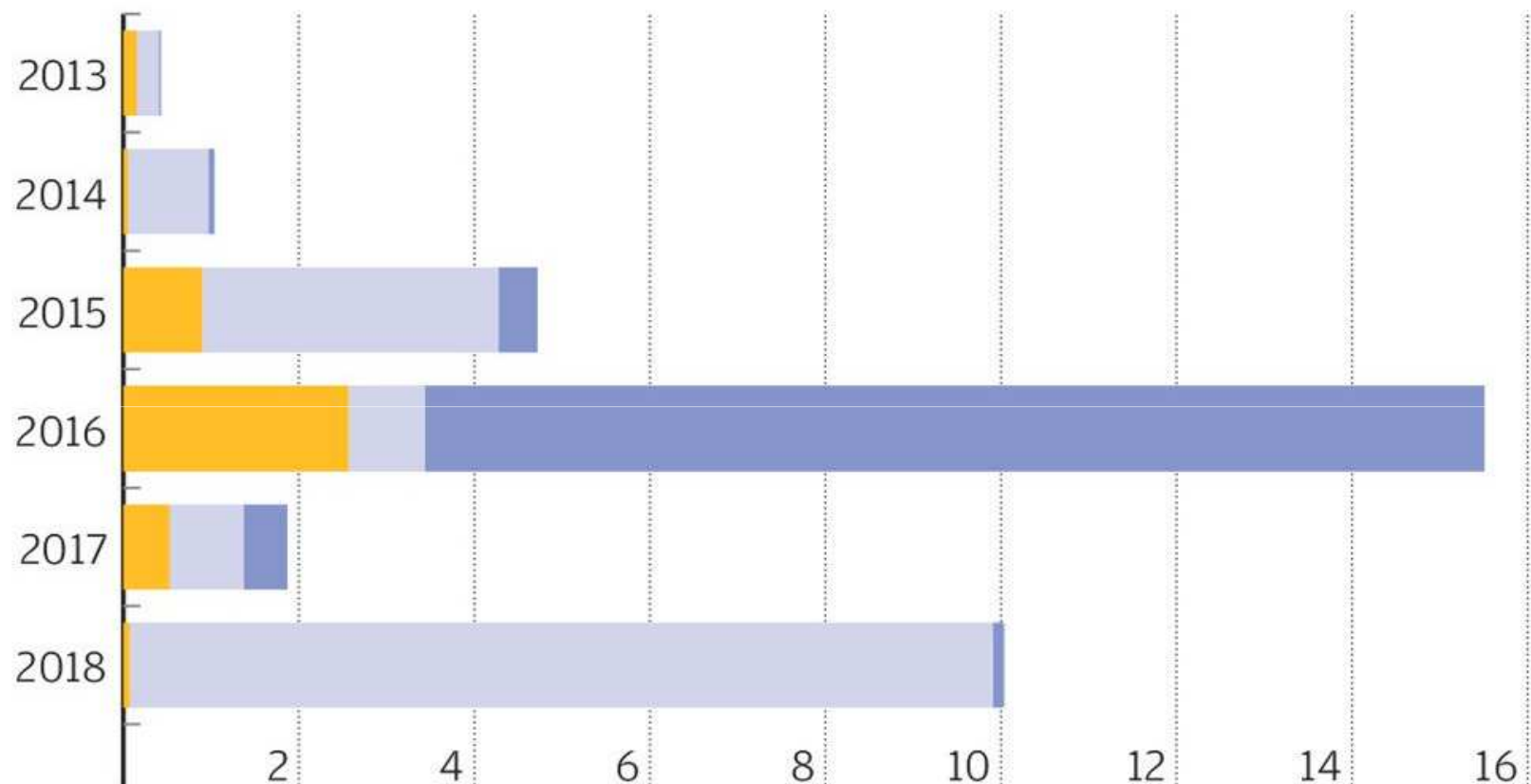
*As of March 6, 2019

SCMP

CHINA high-tech investment in USA

Chinese investment in US technology companies (US\$b)
















- Semiconductors and semiconductor equipment
- Software and services
- Technology hardware and equipment



Source: S&P Global Market Intelligence

SCMP

Largest Chinese deals in the US

Year	Value (US\$b)	Acquiree	Acquirer
2016	 10.38	CIT Group's aircraft leasing business	Avolon Holdings
2013	 6.95	Smithfield Foods	Shuanghui International
2016	 6.5	Strategic Hotels & Resorts	Anbang Insurance Group
2016	 6.5	Stake in Hilton Worldwide Holdings (25%)	HNA Group
2016	 6.26	Ingram Micro	HNA Group
2016	 5.6	GE Appliances	Qingdao Haier
2007	 5	9.9 per cent stake in Morgan Stanley	China Investment Corp
2016	 3.61	Lexmark International	Apex Technology, PAG Asia Capital
2016	 3.5	Legendary Entertainment	Dalian Wanda
2007	 3	Stake in Blackstone Group (9.9%)	China Investment Corp
2016	 2.75	NXP Semiconductors' Standard Products business	Beijing Jianguang Asset Management-led consortium
2015	 2.71	Genworth Financial	China Oceanwide Holdings
2012	 2.6	AMC Entertainment	Dalian Wanda
2012	 2.5	Stake in Devon Energy Corp oil assets	Sinopec
2017	 2.04	245 Park Avenue	HNA Group

Source: Refinitiv

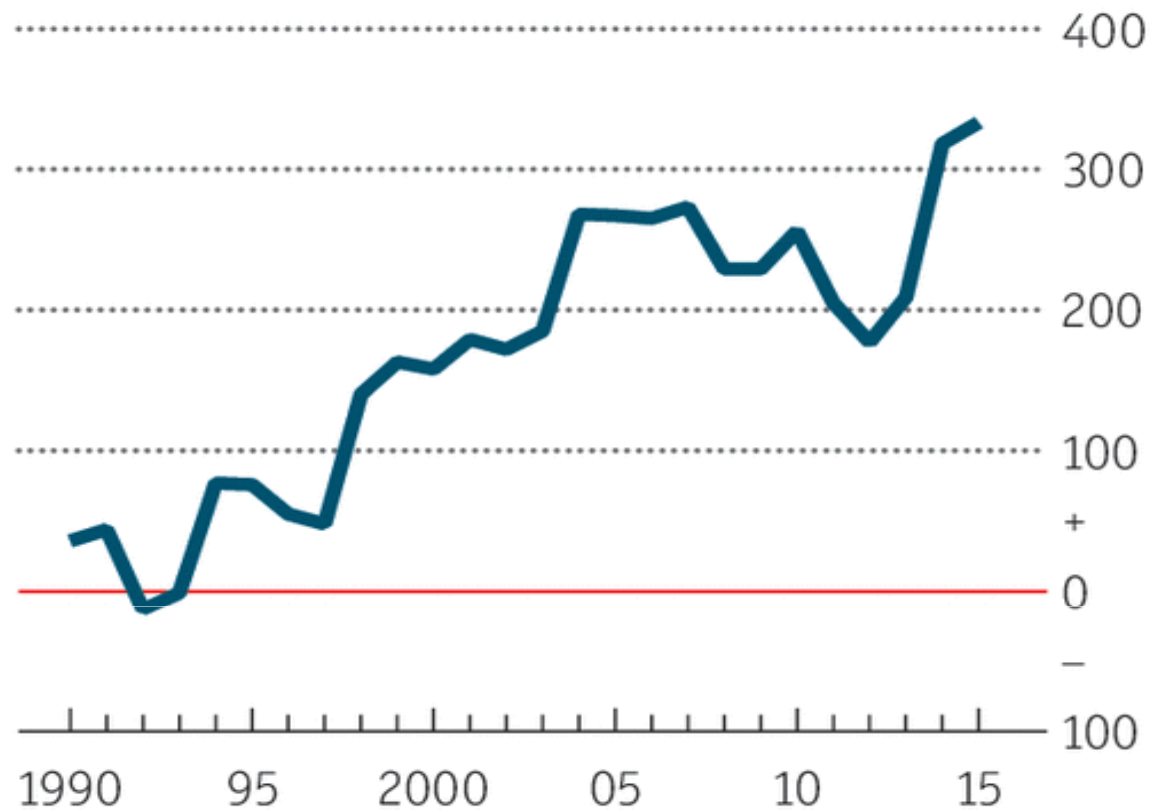
SCMP

BREXIT ARGUMENT

- In the debate over Brexit, one of the arguments of the 'leave' campaign was greater control over immigrant flows in the UK from other EU countries.
- During 1995-2015, EU immigrants living in the UK tripled from 0.9 million to 3.3 million. The share of EU nationals rose from 1.8% to 6.3% of the working age population (age of 16-64).
- There was serious concern that the high level of immigration was putting pressure on jobs, wages and quality of life.

The fear factor

Net migration to Britain, '000



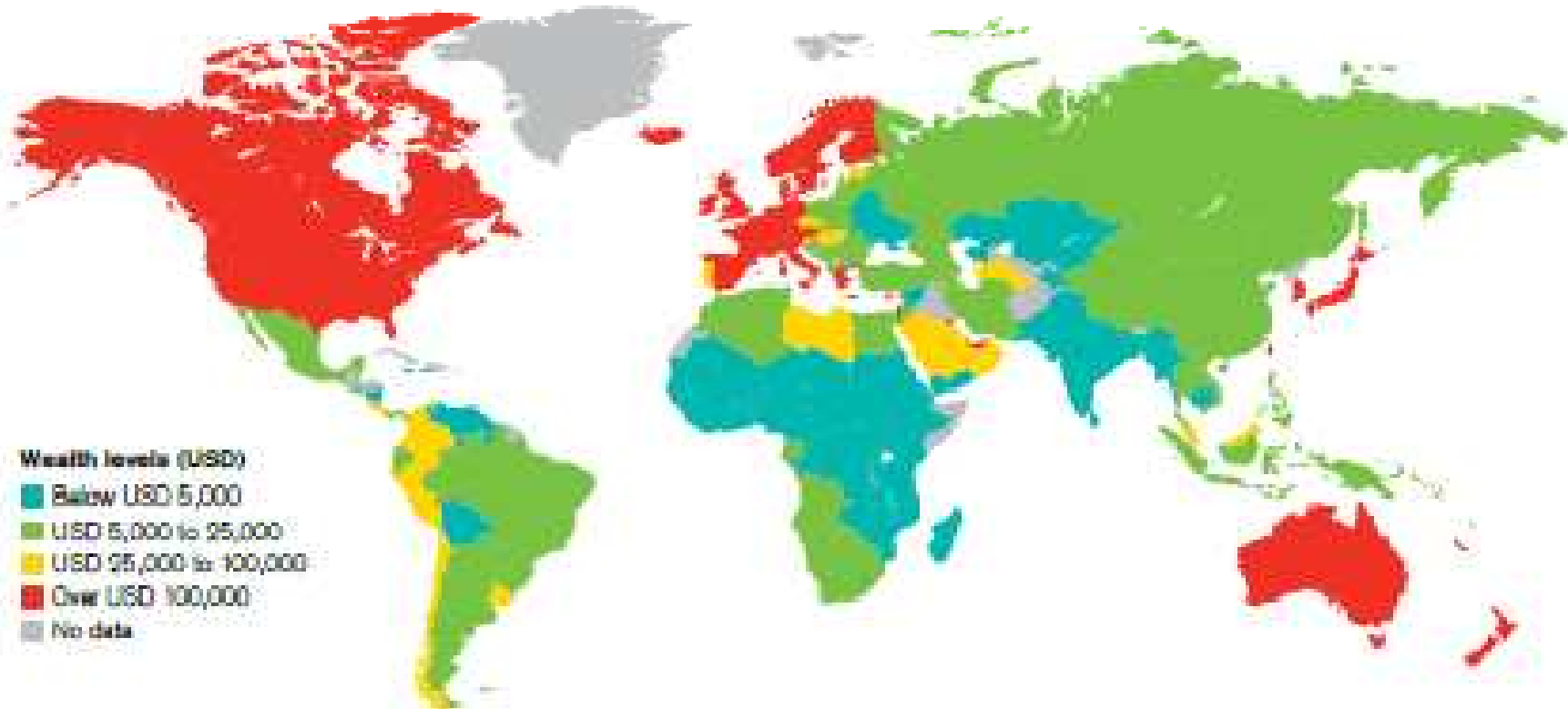
Source: National statistics

GROWING INEQUALITY

- In a study of 46 major economies, it was found that while wealth inequality was on the rise in 12 of them before 2007, the number has since gone up to 35.
- The uneven gains to individuals from the rise of asset values in the post-2008 period. It is largely caused by the Central Banks pumping easy liquidity in the market raising asset prices, i.e. stocks, bonds and real estate. For example, in Britain, while wages are up only 13%, stock market is up 115% since 2008.

WORLD WEALTH LEVELS

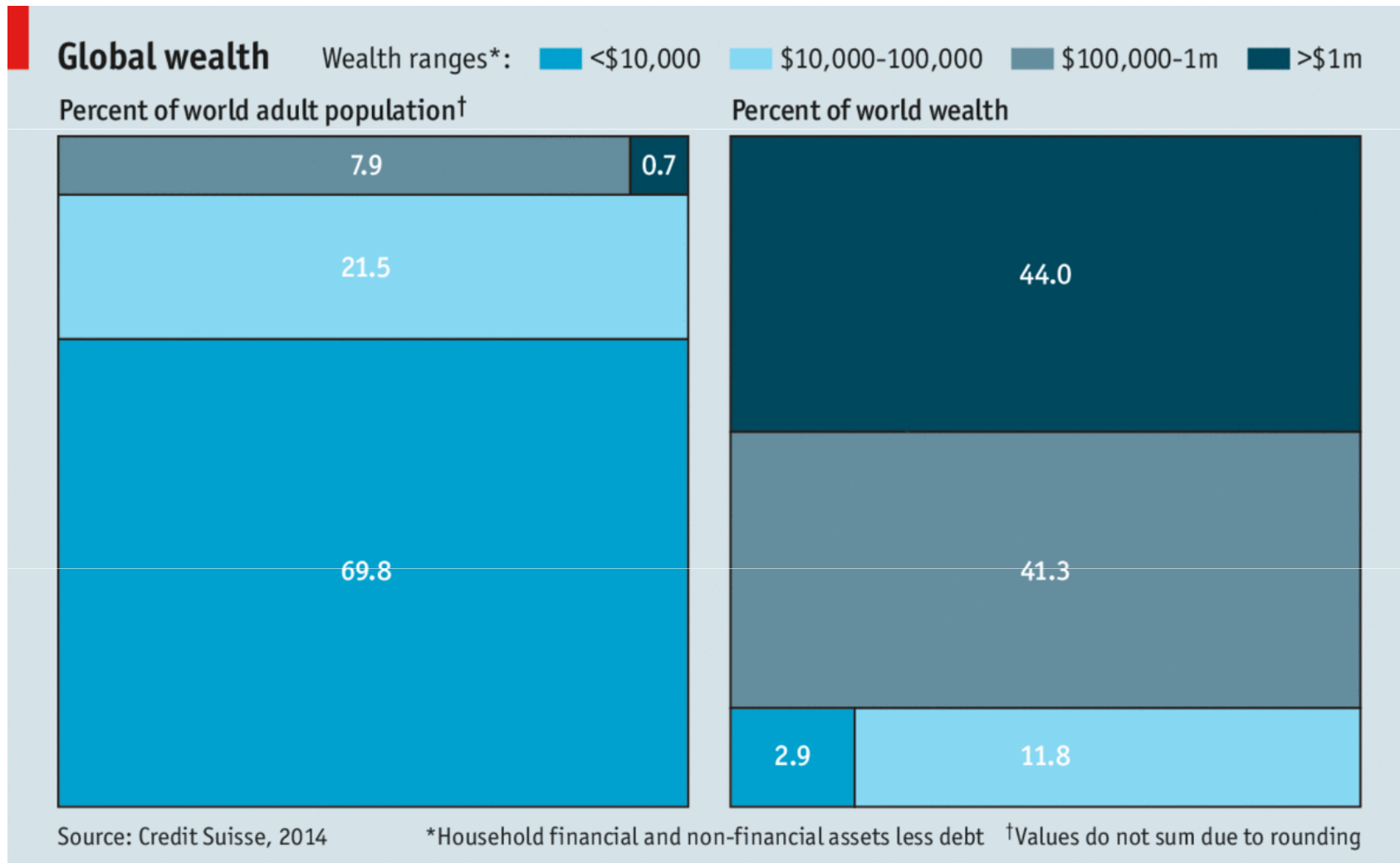
Figure 7
World wealth levels, 2016



Source: James Davies, Rodrigo Lora and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2016

Global wealth

Oct 18th 2014 | THE ECONOMIST



FUTURE SCENARIOS ?

- GROWING UNCERTAINTY
- POLITICAL TENSIONS
- SOCIAL UNREST
- WHAT PREVAILS ??? POLITICS OR ECONOMY?
- EXCITING PREDICTIONS !