

Letter n°8

Deglobalization ? When utopia defies realism.

« *The triumph of the demagogue fades but the ruins are eternal* » Charles Péguy

In the 2005 CIA report "What will the world be like in 2020? ", one can read on page 111: "The emergence of a pandemic is only a matter of time... In the megacities of the developing world with poor health systems, in Africa, China, India.... Such a pandemic could spread rapidly across the globe... then globalization would be in jeopardy. The spread of the disease would put an end to international travel and world trade over a long period of time. It would force governments to spend enormous resources on outdated public health structures, and to take measures to control the flow of capital, goods, people and technology, which in turn would put economic growth at risk...".

This report was premonitory, but is globalization going to be in jeopardy as suggested? It seems that the benefits of globalisation are forgotten and its ills exaggerated. Yesterday, bathed in virtues, today, accused of being at the root of the crisis. The thesis of deglobalization not only divides but also opposes and, curiously, is part of the fracture in Western societies, the one *Goodhart* analyses between people from somewhere and people from everywhere, the "Somewhere" versus the "Anywhere". Is deglobalization desirable, is it conceivable, is it possible? Without bias, let us try to combine utopia and realism. Excesses can and must be corrected, but we must be careful. Retreat could rhyme with denial, protection with inflation, confinement with impoverishment.

We could successively recall the benefits and failures of globalization, evoke the slowdown observed since the 2008 crisis, and explore the world of tomorrow.

The benefits and failures of globalization :

Economic and financial globalization can be credited with success. The emergence of developing countries open to trade has been faster than those who are closed, the two Koreas are a good example and we could add the economies of Southeast Asia. The development of a prosperous middle class in many emerging countries has contributed to this opening up, the lifting out of poverty for hundreds of millions of people is a happy consequence of internationalization. However, it is true that for the past two or three decades, the middle classes in developed countries, which have benefited from globalization because many consumer goods are cheaper, have not enjoyed the same income growth as during the "Glorious Thirties", inequalities have increased and resentment has been expressed at the ballot box with the rise of populist parties and the questioning of democracy. Dani Rodrik, a Harvard professor, in his book "*The Globalization Paradox*", formulated the trilemma of globalization-sovereignty-democracy, which underlined the difficult reconciliation of the state sovereignty with globalization, of a democracy with an open economy. Globalization would limit the states' freedom of action. From a commercial point of view, Trump did not hesitate to impose customs duties and, from a political point of view, Brexit was an illustration of the desire to regain sovereignty.

The structural and cyclical slowdown ?

The growth slowdown of international trade is not new. Before 2008 international trade growth had been double that of the world GDP, since then, it has been in line with that of GDP. Since 2011, OECD imports as a percentage of GDP from emerging countries have been stable, but almost half of the turnover of S&P500 companies is generated outside the United States, and even more so for European companies. Three-quarters of UK companies' revenues in the MSCI are generated from exports. The world's top four exporters are China, with 12.7% of world exports, an export volume of \$2.5 trillion, almost the equivalent of UK GDP, followed by the US at 8.6%, Germany at 8% and Japan at 3.8%. From an economic point of view, the World Trade

Organization (WTO), anticipates a 13-32% drop in trade this year. China's recovery is hampered because 35% of its exports are to the United States and Europe, which are currently at a standstill.

The world of tomorrow : reorientation and free trade preservation.

The current crisis will prompt reflection on the decarbonization of transport, for example the development of gas-powered ships, based on "just-in-time, zero inventory", methods applied by Japanese companies at the end of the 1970s. Low inventories are an economy, but stock shortages, observed today in some sectors, have a cost. One example is the Western pharmaceutical industry, which is sometimes paralysed because 60 to 90% of active ingredients are produced in China.

A distinction will have to be made between sectors with low value-addition such as textile, and high-tech sectors. Bringing factories from Asia to Eastern Europe, Portugal and North Africa is an option for the former. Promoting European industries for the latter is a possibility offered by the progress of robotization and artificial intelligence, and a necessity if we wish to make progress towards union in Europe. Europeans should think about other community projects, particularly in the digital field, a weakness for the continent, and think about better protecting European groups from foreign predators attracted by the low level of prices. We are thinking of, for example, the automobile industry or certain banks.

Reindustrialization of certain countries, regionalization of trade are possible and likely in some sectors, it will reduce trade flows, it will reduce the trade deficit of countries such as the United States, Great Britain or France, it will reduce the trade surpluses of China or Germany and reduce their ability to acquire US Treasuries.

China, faced with rising wage costs, has already lost manufacturing opportunities in recent years to Vietnam, Bangladesh or Cambodia, particularly in the textile sector. But let's not dream, China has a trained workforce, dominates in many sectors and will be able to remind Western companies that relocations could close the Chinese market to them. At a time of heightened tension between China and the United States, the Chinese, irritated by the pressure on Huawei, are speeding up the implementation of the "China 2025" plan to acquire technological independence and primacy in sectors of the future.

After the impassioned speeches in favour of relocations, these could be concentrated in a few strategic sectors, such as military, health, energy with a revival of nuclear power and the development of solar energy, or even food. Stating this is easy and almost unanimous, but it remains to be financed. Healthcare spending, with the exception of the United States at 18% of GDP which is recognized as inefficient, is already on average 11% of the GDP of Western countries. Many would like to increase this proportion but, quite rightly, refuse to reduce spending on pensions (11-13% of GDP), education (6% of GDP), research (2-3% of GDP), defence (1-2% of GDP) and it is impossible to increase deficits. Wisdom would like a European and not a purely national approach, but health has historically not been within the prerogatives of the Union.

Let us beware, the closure of a country is ultimately a loss of competitiveness, the loss of stimulus from competition would result in higher prices of goods, a loss in purchasing power and higher inflation.

In our prosperous but ageing countries, in our rich but often stagnant economies, closing borders would mean the loss of access for our companies to the Chinese market and its 1.4 billion inhabitants, to the Indian market and its 1.35 billion inhabitants, to the African market, with its 1.2 billion population today which will jump to 2.5 billion in 2050. Three major markets driven, to varying degrees, by the growth dynamics of the middle classes, their desire to consume durable goods as well as luxury products. All this know-how is driven by European companies.

Conclusion :

As this crisis shows, the world shares a common destiny. The interdependence between states is not simply economic, financial and commercial, and must not be reduced to cost optimization. Since September 2001, political interdependence in the fight against terrorism has been a given. Today, health interdependence is more apparent than during the SARS or Ebola epidemics. Tomorrow, climate interdependence could take on a more tragic dimension if nothing is done. Turning our backs on multilateralism, as Trump does, is a mistake and let's not forget that, a few decades after the Black Death of the 1350s, the Renaissance had materialised a formidable development in trade. We must give a new impetus to multilateralism, to international organisations, such as the WTO, hampered by Trump, the World Bank, which is able to help the poorest, the

IMF, which is able to offer emergency aid of up to \$100 billion to the 102 countries who have asked for help, to decide on a moratorium on interest of the poorest countries' debt and to mobilise \$1 trillion. As Albert Camus said on December 10, 1957, in his speech in Stockholm at the reception of the Nobel Prize, « ***Each generation, without doubt, believes itself to be destined to remake the world. Mine, however, knows that it will not do so again. But perhaps its task is greater. It is to prevent the world from falling apart*** ». We can expect that certain populist regimes, such as Brazil, which are incapable of managing the crisis, will be discredited, that the digital dimension of globalization will be strengthened, that the financial dimension and capital flows will be maintained, that the trade in goods will be eroded, and that the movement of people will be temporarily reduced. The strong growth in air transport and the development of mass tourism has come to a halt, but will we make the same observation in a few years' time?

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