

Letter n°98

Globalisation in failure?

“Failure is not fatal: it is the courage to continue that counts.” Churchill.

4 preliminary remarks:

- ***The failure of negotiations:***

This quote from Churchill, reiterated last week by the director of the WTO, at the close of the session gathering the 166-member states, illustrates the failure, as no agreement could be reached. Neither on agriculture, nor on fisheries, nor on ecommerce. Worse, the Dispute Settlement Body, the cornerstone of the WTO, established in 1995 during the Marrakesh agreements, is no longer functioning, blocked for 4 years by the United States, while anti-competitive practices are on the rise.

Multilateralism gives way to bilateral agreements, to the law of the strongest. Far seems the time, in 1995, of the Uruguay Round agreements or in 2001 of the Doha agreements which had allowed China's entry into the WTO and aimed to put trade at the service of development.

- ***The multiplication of shocks:***

Covid, war in Ukraine, sanctions against Russia, reindustrialisation plan in the United States, tensions in the Red Sea, increase in Chinese subsidies to absorb overcapacity... Everything contributes to the collapse of the international governance established by the United States in 1945. The WTO, the World Bank, the IMF struggle to reform, even if Biden seems favourable to it.

- ***The slowdown in volume of trade:***

The evolution of trade has never been linear. In the past, we have experienced various phases of globalisation, for example, that of the Roman world, then that developed under the Mongol Empire, then that of the 19th century around the British Empire. In between, there have been phases of retreat.

International trade, long a driver of global growth, has been slowing since 2012. In 2023, according to the WTO, volume growth did not exceed +0.8%. And at the same time, there is a reorientation of trade flows.

The objective is no longer, and this is the turning point to remember from this Letter, to buy at lower prices but to secure supplies.

- ***The continued development of other forms of globalisation:***

Trade in goods has lost its momentum but globalisation has other components. The exchange of information and services is still growing, monetary exchanges are still dominated by the \$, population movements are hindered by States.

Questioning a failed globalisation means first examining the weakening of globalisation by politics, then by economics, and finally assessing the dangers of protectionism.

Globalisation weakened by politics:

- *The accused globalisation:*

Since the beginning of 2022, according to the United Nations, trade between "friendly countries" has increased by 6%, the Western bloc on one side, the so-called global South on the other. Trade between blocs has decreased by 5%. These two figures shed light on the current evolution.

Globalisation is denounced from all sides:

Enemies of the West see it as an instrument of oppression led by the West, an instrument of plundering the raw materials of Southern countries. Leading the way, China presents itself as a bearer of new ideals, but this serves its interest and its practices in Africa do not differ from those of Western countries.

Globalisation is also blamed by many Westerners who attribute to it a levelling of cultures, the downgrading of middle classes, an unequal distribution of wealth, a decrease in social and regional cohesion due to relocations and factory closures, ecological degradation caused by transportation and abusive exploitation of soils, whether in agriculture, the intensive use of products banned in some regions, or in mines, soil pollution or intensive use of water.

- *Fractured globalisation:*

On one hand, the Western bloc shares so-called universal values, freedom of expression and opinion, freedom of elections. They are not empty words and do not amount to disguised imperialism, but are rejected by China.

On the other hand, the global South, a bloc without international cohesion, has many autocracies and a few democracies and shares only one convenient enemy, the former colonialist West.

On one hand, there are numerous dissensions within the supposed global South. India is against Pakistan, Egypt against Ethiopia, the Philippines, Malaysia, and Vietnam against China, China against India, Morocco against Algeria...and this list could go on.

On the other hand, not all countries in the global South are necessarily hostile to the West. Think of Vietnam, Thailand, Indonesia, the Philippines, India... Many are actually opportunistic, one day supporting the United States, the next China.

Globalisation of trade in goods weakened by economics:

Are we witnessing a phase of hegemonic transition? Not sure. A rise in protectionist tensions? Clearly. Increased interventionism? Certainly. New partnerships? Clearly.

Let's take just one figure to illustrate the tremendous growth in international trade: the transport of goods, 80% of which is by sea, has undergone extraordinary growth. In the 1950s, the first container ships carried around 50 crates; today, they can carry almost 25,000 crates, the equivalent of a line stretching almost 150 km.

An effect of this globalisation, undoubtedly, is the reduction of poverty and famine in the world, the emergence of a middle class of several hundred million in China, India, and other countries. But it is now being contested.

The quest for optimal allocation is sacrificed to geopolitics, and "friendshoring", globalisation between friends and neighbours, is favoured.

The legacy of David Ricardo:

- Happy globalisation 1980-2015:

For the past two centuries, Ricardo's theory of comparative advantage has prevailed, and in recent decades, many developed countries have transferred their industrial factories to China. The idea was to preserve research centres in the West but to outsource assembly.

Between 1980 and 2016, in Western countries, many were pleased to buy cheaper products from China. Few worried about the decline of industry and lost jobs. No one was bothered by Chinese subsidies, and, on the contrary, many rejoiced.

- The producer sacrificed for the consumer:

The EU, traditionally, has favoured low prices, competition at the expense of building strong groups with monopolistic positions. Mobile telephony is a good illustration, the EU has more than 40 groups managing around a hundred mobile operators, whereas the United States has only three and the Chinese market is even more concentrated. As a result of this competitive environment, a European mobile phone user pays a third of what an American consumer pays, but operators have less money to invest in 5G.

However, the strategy of outsourcing encounters limits, notably the trade deficit. Deficit countries, the United States, Canada, France, and Great Britain, have the choice between repatriating activities and increasing debt. Relocation, reindustrialisation are the paths offered to these countries to reduce their deficits.

In this context, surplus countries, Germany, South Korea, Taiwan, and especially China, may have some concerns.

The challenge:

While the relevance of the theory of comparative advantage has often been confirmed, it has been polluted by Chinese behaviour, the abusive practice of public subsidies to ensure local actors a competitive advantage on the international scene.

China has fully benefited from its entry into the WTO in 2001 because, since then, the volume of its exchanges has multiplied by 10.

Today, 5 grievances are reproached to it: state subsidies to numerous industrial sectors, loans made by public banks at preferential rates, deficiencies in the protection of intellectual property, refusal to abandon the status of emerging country and abuse of recourse to forced labour.

Thus, in Xinjiang, the mistreatment of millions of Uighurs is the cause of BASF's closure and Volkswagen's considerations of a potential withdrawal.

The aim is to protect the most vulnerable from international competition, for example, farmers, sometimes victims of competition from countries destroying their environment to produce.

Throughout Europe, there are numerous movements of farmers and frequent criticism of Brussels and free trade agreements. In the pork industry, many breeders are alarmed by Chinese competition because since the low point of pork production in 2019 at 310 million, Chinese pig farms have increased their production to 434 million in 2023 and prices have collapsed by 17% over a year in January. Topical and alarming, too, is the abuse of traditional franchises, such as some of France's specialities, like Dijon mustard, supplied from Canada if we are to believe Orsenna in his excellent book "Feeding without Devastating." And the list goes on, with Galettes bretonnes biscuits coming from China...

But let's not overlook the surplus in the EU's agri-food trade balance, €70 billion in 2023, let's not ignore France's surplus, a constant since 1977, a positive balance of €10 billion in 2022 and €6.6 billion in 2023. This figure is the sum of a deficit of €9.9 billion with EU members and a surplus of €15.8 billion with the rest of the world. Proof that the signed agreements are not so harmful. France, in 2022, according to FranceAgriMer,

remains the world's leading exporter of wines and spirits, the top in live animals, the 4th in milk and dairy products, the 4th in sugar. And let's not forget cereals. In other words, premature denunciation of trade agreements could penalise France and the EU.

Measures:

The West prioritises supply and subsidises in turn. Reindustrialisation is part of a movement denouncing the environmental costs of international trade, with a view to promoting short circuits and a trend towards more state involvement, already evident with increased spending on health, pensions, and defence.

The context is unfavourable, as the average budget deficit of G20 countries exceeds 4 to 5% of GDP, especially in the United States, Great Britain, Japan, and France, and with rising interest rates, the average public debt of G20 countries has increased from 75% in 2007 to nearly 125% today.

The problem is the difficulty, or perhaps the inability, of states to increase taxes, except probably for a carbon tax.

The 4 dangers of protectionism:

- *Retaliations:*

A recent IMF report indicates a tripling of trade restriction measures in the last four years, and according to Chinese authorities, the majority of these measures are directed against China.

In Europe, companies like Mercedes, of which 20% of the capital is held by Chinese investors and a third of sales are made in China, oppose an increase in tariffs on the importation of Chinese electric vehicles, as they fear retaliation.

As a retaliation, China reduces its imports of Western industrial goods.

- *Shortages of skilled labour:*

Protectionism can promote job creation in industry, but there must be available labour, and we can see the difficulty in the United States with some ten million unfilled jobs.

- *Penalisation of consumer purchasing power:*

This is evident, as import taxes are borne by consumers and businesses.

- *Decreased productivity and State-Enterprise divergences:*

The interests of companies do not always align with those of states. Protectionism affects productivity and global growth, as the allocation of factors of production is not optimal. This is the result of an IMF study from October 2023.

Companies want to be able to establish themselves in certain countries, like China, or partner with Chinese manufacturers, despite the reluctance of Western states. For example, Stellantis, concerned about Chinese competition in electric vehicles, has entered into a partnership with the Chinese company Leapmotor to produce and sell electric vehicles.

Companies are sometimes reluctant to relocate their production and comply with state objectives of national security.

Companies sometimes denounce the populist stances of certain heads of state, for example, Trump, when faced with the bosses of the GAFAM.

In conclusion, before our next Letter dedicated to the desire to reduce dependence on China, let us recall ***Disraeli's*** famous words, "***Let us be pessimists out of realism and optimists out of necessity.***"

Geneva, 14 March 2024

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