DEGLOBALISATION?

Albin Kistler AG opinion piece
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The last few decades have seen rapid progress towards a state of global interconnectedness. What have been the structural drivers and effects of this trend, and are we now heading for an era of deglobalisation?

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Where is globalisation going?

The measures imposed by governments as a result of the Covid pandemic brought the economy to a standstill, showing us just how complex global business is and the extent to which it is based on interdependencies. Our own experiences have shown us all that this system is relatively vulnerable to disruptions, which can be summed up pretty well in a single phrase: supply chain problems.

Both companies themselves and politicians are now conducting a critical review of the dependencies that have arisen. The debate is being dominated by terms such as reshoring, which essentially involves making the national economy or one's own company more stable and reducing dependencies. In addition to experiences from the pandemic, of course, other aspects, particularly those of a geopolitical nature, are also at play here. Increasing tensions between the large economic blocs of China, the US and Europe mean that issues of supply security are becoming more relevant again. Against this backdrop, it is no surprise that reports of the end or at least a reversal of globalisation are becoming more widespread.

Over the past few years, Albin Kistler has repeatedly described globalisation as one of the key structural drivers of economic progress and of the considerable gains in global prosperity. Globalisation is also to thank for the impressive performance of Switzerland's corporate world.

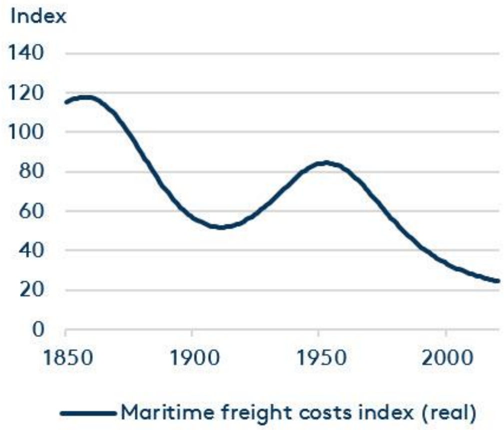
What do we mean by globalisation?

From our point of view, globalisation can most accurately be described as the process whereby business, science and culture become more interconnected on a worldwide scale. As such, it is not merely restricted to economics in the form of cross-border flows of goods and services. Rather, this growing interconnectedness can be seen in many other areas of life. In this article, however, we want to focus on economic trends.

Not a new phenomenon

Globalisation is by no means a new phenomenon. It has in fact been taking place for centuries. It is possible to identify various consecutive phases of globalisation. Advances in navigation and seafaring paved the way for the Age of Discovery. The Industrial Revolution in the 19th century led to new and more efficient transport options. This was one of many key moments in globalisation: goods produced could suddenly be transported profitably over long distances and to other sales markets.

Fig. 1: Structurally lower transport costs



Source: Dallas Fed Working Paper No. 2102

The geographical decoupling of production and consumption became a reality and led to the development of international goods trading, driven by structurally lower transport costs (see Fig. 1). Before long, not just finished goods but entire factories were being "transported" as industrial production capacity was gradually shifted to locations with much lower production costs. As a consequence of this trend, the international capital markets also became increasingly globalised. The increasing mobility of goods, production sites and capital transformed entire economies, driven by companies' innovation and creativity.

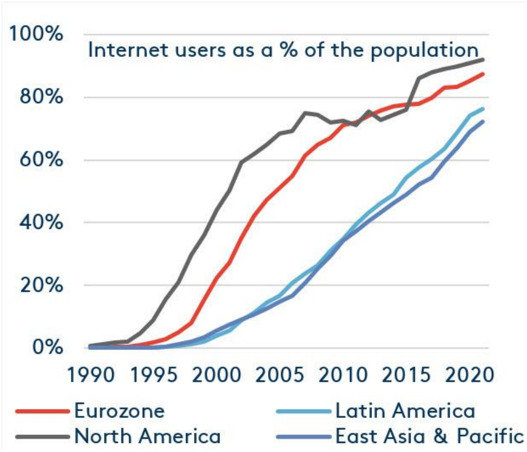
Clusters

The increasing complexity of production processes and value chains called for a high degree of communication and coordination from all players. Producers, suppliers and hauliers needed to continuously coordinate their activities. In such situations, advantages arise if players are geographically near to each other. Companies in the same or at least related economic sectors chose locations close to each other, thereby creating clusters. There are countless examples of these around the world, from the film industry in Hollywood to Silicon Valley, the German automotive industry or the Swiss watch industry, to name just a few. There is a high level of competition in such clusters, but the competing players also benefit from positive effects such as the emergence of a large number of supplier companies in the immediate vicinity, a large pool of specialist staff with appropriate skills, or the establishment of relevant schools and research institutions. These network effects fuel productivity and innovation within the entire cluster.

From trade in goods to trade in knowledge

In simple terms, until well into the 20th century the majority of trading was in raw materials or finished goods. However, the immense progress made in communication and information technology fundamentally changed this situation. It was another key moment. From the 1980s onwards, telecommunications became more widespread, more reliable and cheaper. This made the aforementioned coordination work far easier. Existing knowledge could suddenly be shared and applied across vast distances. All of a sudden, direct proximity to the required know-how and the individual production steps was no longer economically necessary. Entire production and value chains could be split into their "individual components" and separated geographically. Construction plans, recipes, process instructions and many other key components of the know-how required for the production of products and services could be shared quickly, reliably and cost-effectively around the world thanks to the internet and telecommunications. And of course, this also created wholly new opportunities for information sharing and cooperation in the fields of research and science. Access to knowledge was massively simplified thanks to the internet.

Fig. 2: The triumph of the internet



Source: World Bank World Development Indicators

The immense progress in transportation was thus followed by the digital revolution, resulting in the intricate global value and supply chains we know today.

Macroeconomic consequences

It is hard to overestimate the consequences of this "new world", which are expressed in many different ways. The following trends are key:

Transfer of knowledge and prosperity gains: Our increasingly global and digitalised world is facilitating the spread of and access to knowledge for large parts of the global population, to an extent never seen before. New and successful technologies are spreading extremely quickly, ensuring that the resulting benefits can unfold at lightning speed. The trends encompass all areas of business, and the consequences for global value creation are massive.

Growing opportunities for business: The intensified exchange of knowledge on a global scale is enabling successful companies to take advantage of opportunities far beyond their home market. The export-oriented Swiss corporate landscape is an example of this.

Deflationary effect: Intensified global interconnectedness and new market structures are allowing huge strides in productivity. The globalisation of supply chains means that goods and services can be produced increasingly efficiently. Competition is also intensifying in many areas of business, fuelling innovation. The consequence of these market forces is permanent price pressure, which leads to a structurally lower price and interest-rate landscape.

The recent rise in inflation allows us to forget that we have experienced a global disinflation process over the past few decades as a result of globalisation.

Globalisation on the retreat?

Reports that globalisation is in crisis, has passed its peak or is even on the retreat have recently become more widespread. What is the truth of these statements? Are we really in a period of deglobalisation, meaning we will have to go without the aforementioned fruits of progress in the future? This of course poses the question of how you measure globalisation in the first place. Can such a multi-layered phenomenon actually be reliably expressed in numerical terms in order to track its progress? Probably not, but there are some good approximations such as the volume of cross-border trading in goods and services, known as international trade. This has in fact been stagnating since the global financial crisis (see Fig. 3). It is also evident, however, that international trade enjoyed almost unfettered growth in the 1990s and 2000s. This phase, which is often referred to as hyper-globalisation, was marked by various events that boosted trade, such as the fall of the Berlin Wall, the opening up of the Chinese economy and the global removal of trade barriers (e.g. NAFTA, WTO).

Fig. 3: Stagnating international trade

Source: World Bank World Development Indicators

This momentum has in fact now come to a standstill. The signs are pointing to conflict rather than convergence between the world's major economic regions.

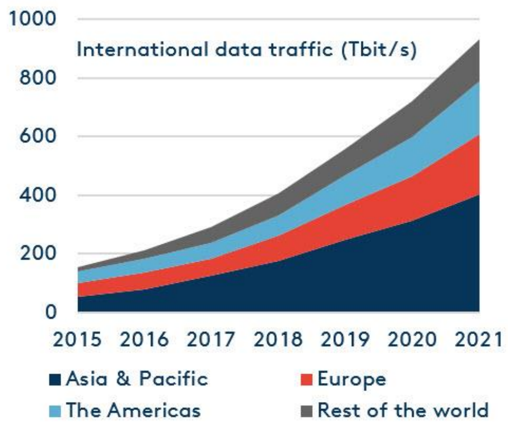
It would be a mistake to conclude that this means the end of globalisation, however. Structural drivers rarely develop in a linear fashion, but instead are often cyclical and take various forms. There have also been periods in the past when globalisation has faltered. It seems much more plausible to us that globalisation will continue, albeit in other forms, rather than ending completely.

The service wave

Data management (processing, storage and transfer) is becoming cheaper all the time, and thanks to fast internet connections is becoming accessible to increasingly large parts of the world. This has created entirely new opportunities for not only large, established companies but also small companies and even individuals to offer their skills and services on a global market. All you need is a laptop and a stable internet connection. More and more sectors are being included in this new world of work, with national borders increasingly losing their relevance.

The result is flourishing digital trade, in which the focus is not only on trade in goods but also on the provision of services. To cite a simple example, whereas containers full of books, CDs and DVDs used to travel across borders, people now consume content through streaming services and e-books. A look at the growth in cross-border data traffic highlights the pace of these developments.

Fig. 4: Growing data traffic



Source: International Telecommunication Union

Conclusion

Even if the latest developments in the form of trade conflicts and geopolitical tensions tell a different story, globalisation is advancing irreversibly and is encompassing more and more areas of business and society. Over the last few decades, the primary focus was on the trade in goods and the associated globalisation of supply chains, but now the service sectors are being swept up in a wave of globalisation.

The result is steady growth in access to knowledge, technological progress and associated prosperity gains over the long term.

The key players here are companies. Digitalisation and globalisation continue to provide them with outstanding opportunities for growth and value creation.

As well as providing impetus, however, globalisation also creates additional pressure in the form of greater transparency and increasingly efficient markets. Excellent companies will continue to be successful in this environment. Investing in these top companies continues to be the most successful and safest form of investment for the smart investor over the long term.

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