

# DE-GLOBALIZATION

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# The Global Framework

- Globally, businesses engage in any and all of the various treaty organizations that provide access to specific regions of the globe or a forum for reducing tariffs
- These include:
  - WTO/GATT – World Trade Organization/General Agreement on Trade and Tariffs
  - EU – The European Union
  - ASEAN – The Association of South East Asian Nations
  - NAFTA – North American Free Trade Association

**De-globalization** .....is the process of diminishing interdependence and integration between certain units around the world, typically nation-states. It is widely used to describe the periods of history when economic trade and investment between countries decline.

Deglobalization - Wikipedia

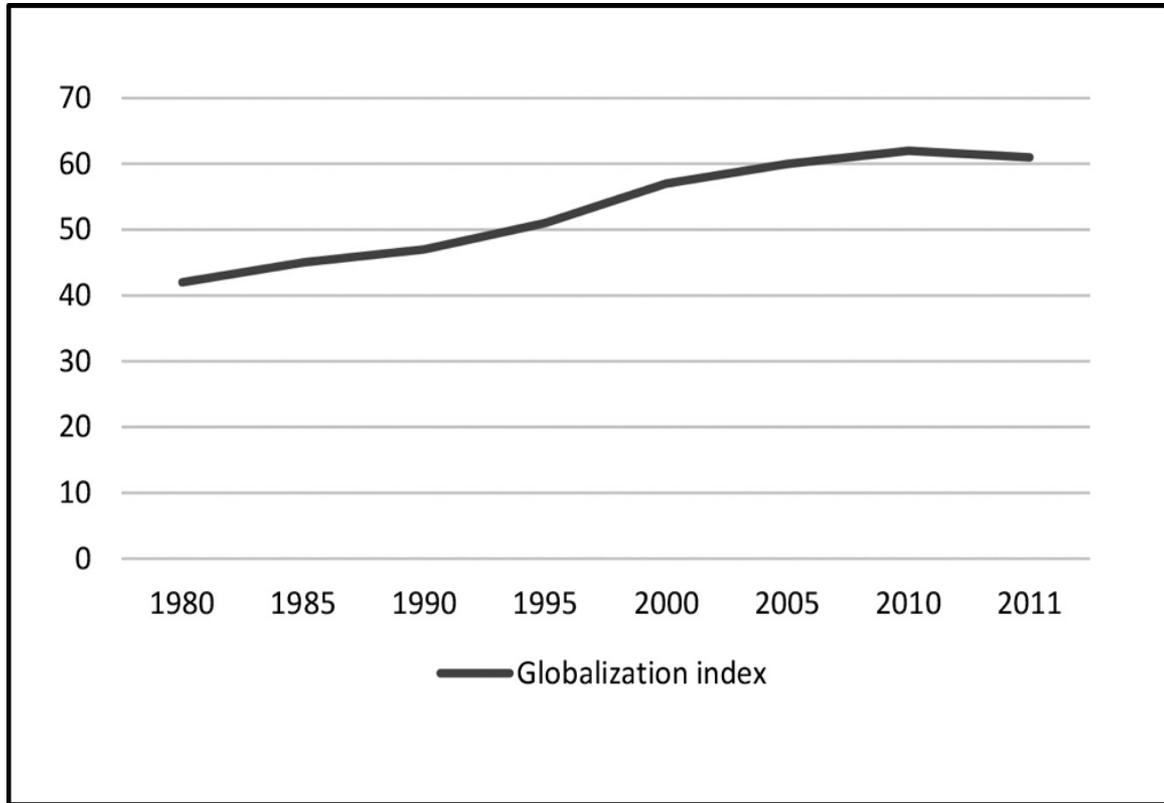
<https://en.wikipedia.org/wiki/Deglobalization>

# Do we Care??

- Economically?
- Socially?
- Culturally?

# Some Evidence

- Brexit
- Poland's Election 2015
  - 51% majority by the Law and Justice Party
  - Their platform: [National conservatism](#), [Social conservatism](#), [Eurocepticism](#), [Statism](#)
- Anti-immigrant Fences
  - Greece, Macedonia, Hungary, Romania
  - Planned for: Guatemala, Argentina, Estonia, Norway
- Re-shoring
  - Furniture manufacturing
- SEI (Swiss Economic Institute) Study
  - Has been slowing throughout the 2009 downturn



Swiss Economic Institute

Reflects; Economic, Social, Political and Cultural Globalization  
25 Variables, 207 countries

# More Evidence

- Walden Bello – Professor SUNY – Sociology
  - Traces the current de-globalization from 2004.
  - Describes de-globalization as a mechanism used by the more developed states to further their self-interests
- WTO: “Growth in World trade slowing”
  - 1985-2003 Trade = 2X Global GDP
  - 2012 – present = about 3% ~ the growth pace of global GDP
  - Forecast: about 1.75% First time in 15 years less than GDP growth
- IMF World Economic Outlook (WSJ, 5 October 2016)
  - 75% of the reduction in world trade is the collapse of foreign investment
  - The remainder 25%) is reduction of pace of trade liberalism and rising protectionism

# And more Evidence

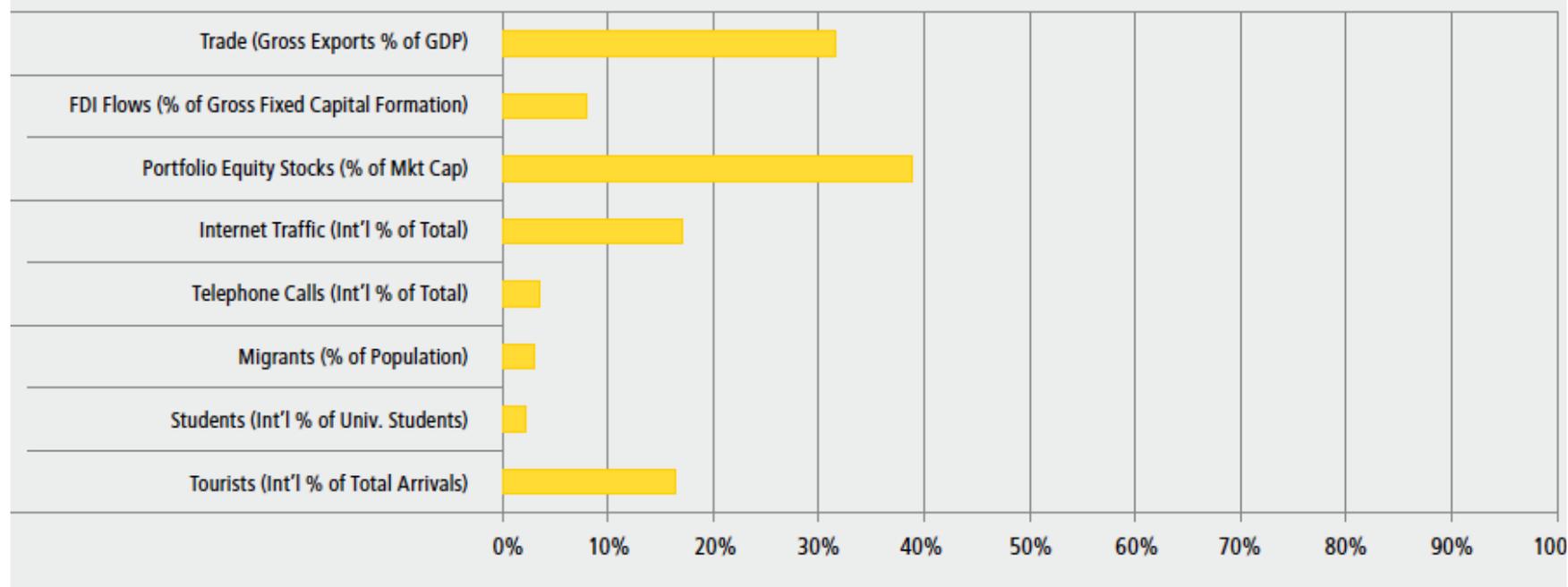
- Tariff relief:
  - 1985 to 1986 - down about 1% year
  - 1986 to 2008 - down about .5%
  - Since 2008 - essentially 0% change
- Sharpest uptick in new trade barriers
  - Anti-dumping measures
  - Retaliatory duties
- Trans-Pacific Partnership in doubt

# And even more evidence

- 2014 DHL Global Connectedness Survey
  - “registers what many regard as the biggest drop-off in the overall level of globalization since World War II, in the wake of the global financial crisis.”
  - Tracks trade, capital, information and people flows

# How Globalized is the World?

Figure 1.1  
Global Depth Ratios, 2013 or most recent year available<sup>6</sup>



Global depth ratios show that far more of every type of activity studied that could take place either within or across national borders is domestic, international. In most cases, the international share of total activity is less than 10%–20%.

# What are the Drivers of De-globalization?

- Years of sluggish growth
- Stagnant Wages
- Rising inequality
- A sense of “unfair competition” from foreign workers and firms
- Fear of immigrants
- Little “dry powder” at the Central Banks
  - Monetary policy tools are largely exhausted
  - Artificial Interest rate environment creating long-term issues

# What are the possible consequences of a slowing of Globalization?

- Slowing growth in Emerging Markets
  - Implications for standard of living
- Weakening global economy
- Return to Power-Bloc politics
  - New cold war?
- Slowing of Innovation
- Weakening of International Institutions
  - Who works on Global Warming initiatives?
  - Who leads the fight on piracy, abuse of women, slavery, etc.?

# What are the current trends in Foreign Direct Investment?

# How much was invested?

- Foreign Direct Investment (FDI) is defined as funds invested by global companies (not by other countries – that's called foreign aid) in the businesses and assets of other nations.
- Example: A French company buys a business like theirs in Italy
- FDI in 2015:
  - Global Foreign Direct Investment up 38% to \$1.76T
    - Highest since 2008-2009
  - Cross-border M&A (Mergers and Acquisitions) up from \$432B in 2014 to \$721B
  - Announced Greenfield Investment \$766 Billion
- BUT
- Much of the M&A was corporate reconfiguration
  - Real FDI up 15%

# Where did it go?

- Mostly from developed countries to developed countries
  - Flows into developed countries (\$962B) up to 55% from 41% in 2014.
  - High in Europe and the United States
- While Developing economies hit a new high of \$765B
  - Most (\$500B) in Asia
  - Africa, Latin America, and the Caribbean are collapsing
- Outward flows to developing countries from developed countries are still 40% below 2007 peak

# Forecast

2016:

- Expecting a fall of 10-15% in FDI in 2016
  - Fragile global economy
  - Weak demand
  - Slow growth in commodity exports
  - Effect of new policies to restrict Tax Inversion
  - Slump in MNE profits

2017: Resume growth

2018: Back to \$1.8T again

*World Investment Report 2016, United Nations*

# What is the Structure of Global Business and how is it Governed?

# Structure

- More than 40% of Foreign Affiliates world wide have multiple “passports”
  - 30% are indirectly owned through a domestic entity
  - 10% are owned through an intermediate entity in a third country
  - 1% are ultimately owned by a domestic entity (round-tripping)
- The larger the MNE the more complex is the ownership
  - 60% of foreign entities have multiple owners
  - Of the 100 largest MNEs followed by UNCTAD
    - Average >500 affiliates each
    - 50 countries
    - Up to 6 borders crossed
    - 20 Holding Companies
    - Use up to 70 offshore investment hubs

# What is the Governance/Regulatory Structure?

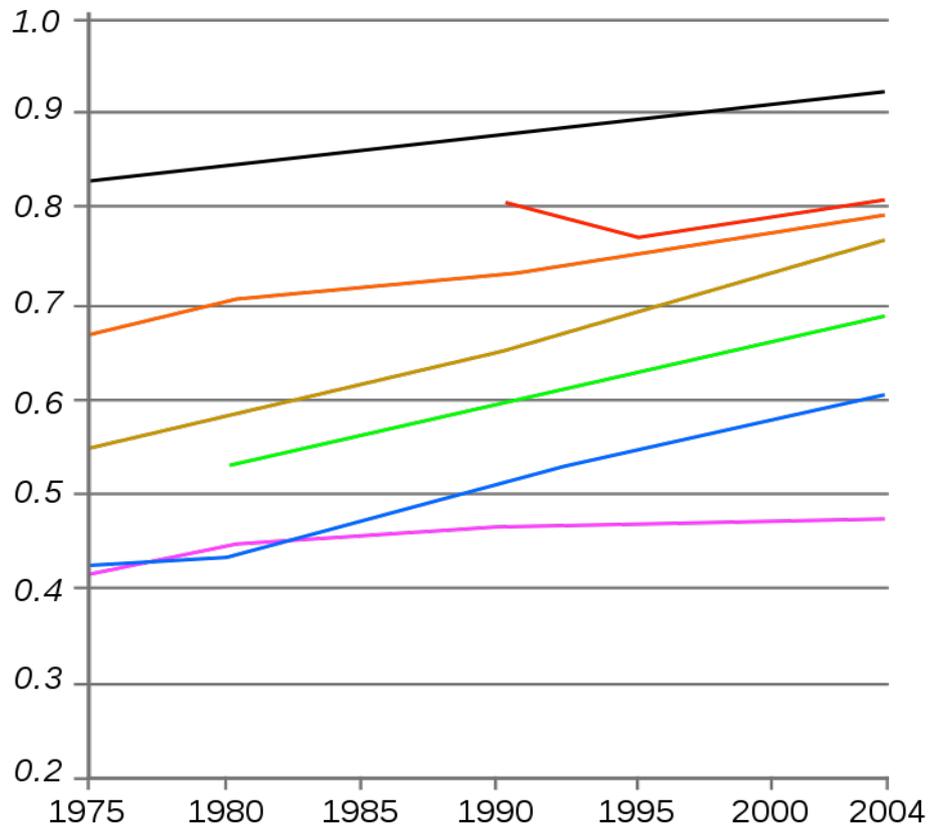
- 80 percent of countries restrict majority foreign investment in at least one industry.
- Patchwork of laws required to enforce the prohibition
  - Anti-dummy laws, anti-abuse laws, disclosure requirements
  - International Investment Agreements (IIAs) 3,304 up 31.
- About 1/3 of entities in the prospective international mega-treaties [Trans-Pacific Partnership (TPP), Trans Atlantic Trade and Investment Partnership (TATIP), Regional Comprehensive Economic Partnership (RCEP)] are owned by a company not in the treaty area.

# What is the impact on Developing Nations?

# What are Developing Nations?

- No agreed definition
- Generally:
  - Less developed industrial base
  - Lower Human Development Index
    - Life expectancy, education, and per capital income
    - Four Tiers of Development
    - Life Expectancy Index:  $LE-20/85-20$
    - Education Index:  $(MYS/15 + EYS/18)/2$
    - Income Index:  $\ln(GNIpc)-\ln(100)/\ln(75000)-\ln(100)$
- $HDI = \sqrt[3]{LEI \times EI \times II}$

# HDI Trends



- OECD
- Europe not in OECD and CIS
- Latin America and the Caribbean
- East Asia
- Arab League
- South Asia
- Sub Saharan

Don't the Trade Treaties protect everyone?

# TPP, TATIP, RCEP.....What?

- In understanding the environment for international business, we discussed the governance and regulatory environment in which the MNE operate.
- One clear emerging element of international business is the prospect of MegaTreaties, intended to define the structure of world trade.
- What are they?
- Who do they impact?
- How do they work?

# The Trans Pacific Partnership (TPP)

- A Trade agreement among Pacific Rim countries (but not China)
- Signed 4 Feb 2016 in Auckland and now awaiting ratification
- An extension of the Trans-Pacific Strategic Economic Partnership Agreement signed in 2005 between Brunei, Chile, Singapore and New Zealand
- Signed by President Obama, now in limbo

# TPP

- Its purpose:
  - "promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in the signatories' countries; and promote transparency, good governance, and enhanced labor and environmental protections."

# TPP- Who is in?

- Singapore, Brunei, New Zealand, Chile and the U.S. – from Feb 2008
- Australia, Peru, and Vietnam – from November 2008
- Malaysia – from October 2010
- Mexico and Canada – from October 2012
- Japan – from May 2013
  
- Not in: China, Korea, Indonesia, the Philippines, Columbia

# TPP – What does it do?

- Signatories represent 40% of global GDP and 1/3 of world trade
- Eliminates 18,000 tariffs
- Replaces other agreements (NAFTA would be amended to conform)
- Provides “robust enforceable environmental commitments”  
Office of the US Trade Representative
- "could directly threaten our climate and our environment [including] new rights that would be given to corporations, and new constraints on the fossil fuel industry all have a huge impact on our climate, water, and land.” The Sierra Club
- Impacts on Human rights, Corruption, and Intellectual Property

# TPP - and Big Pharma

- Paul Krugman – will tighten the patent laws and allow the large pharmaceutical corporations to gain advantage
- Walter Park, Professor of Economics – “will potentially enhance unaffiliated licensing in developing countries, lead to tech transfers that contribute to local learning-by-doing, stimulate new drug launches in more countries, expand marketing and distribution networks, and encourage early stage pharmaceutical innovations.” in short – No it won't
- Big Pharma – Too lenient patent protections

# TPP – Investor-State Dispute Settlement (ISDS)

- Investors gain the right to sue foreign governments for treaty violations
- Meant to provide:
  - Freedom from discrimination: An assurance that those doing business abroad will face a level playing field and will not be treated less favorably than local investors or competitors from other countries.
  - Protection against uncompensated seizure of property: An assurance that property of investors won't be seized by the government without just compensation.
  - Protection against denial of justice: An assurance that investors will not be denied justice in criminal, civil, or administrative adjudicatory proceedings.
  - Right to transfer capital: An assurance that investors will be able to move capital relating to their investments freely, subject to safeguards to provide government flexibility, including to respond to financial crises and ensure the integrity and stability of the financial system.

# TPP – ISDS – So everybody loves it. Right?

- However:
  - The Tobacco industry is excluded
  - Joseph Stiglitz, Nobel Laureate, former Chief Economist of the World Bank, and Chairman of the US President's Council of Economic Advisors – “interferes with the ability of a government to prevent public harm” Example: Asbestos industry, Oil companies
- Sen Elizabeth Warren, D: concerned that countries could not manage their own affairs, gave the example of France suing Egypt because Egypt raised minimum wage

# TPP – But it's a win for the U.S. Right?

- Well, maybe
- Stiglitz – it serves the interests of the wealthy
- Organized Labor – will benefit corporations at the expense of workers in manufacturing and service industries
- Sen Bernie Sanders – will devastate working families and enrich the wealthy.
- Professor Robert Reich – “a Trojan Horse in a global race to the bottom”
- Noam Chomsky - "designed to carry forward the [neoliberal](#) project to maximise profit and domination, and to set the working people in the world in competition with one another so as to lower wages to increase insecurity."

# TPP – But it's a win for the U.S. Right?

## cont'd

- Two dramatically opposing views:
- Tufts University Model
  - would have a negative impact on employment: 450,000 US jobs, 75,000 Japanese jobs, 58,000 Canadian jobs and 5,000 New Zealand jobs would be lost by 2025.
  - According to the report, 771,000 jobs would be lost in total and positive economic effects would be negligible for participating countries
- Petersen Institute for International Economics Model
  - TPP would increase incomes in the U.S. by \$131 billion annually, or 0.5 percent of GDP. Exports from the U.S. would increase by \$357 billion annually, or 9.1 percent, as a result of the agreement
- The Difference – The Computable General Equilibrium Model

# The Computable Economic Equilibrium Model

- This is a primary model for the evaluation of overall welfare impacts of increased international trade.
- It assumes generally, that jobs lost (that is people put out of work as a result of the production shifting to a cheaper international location) are replaced with equal jobs immediately.
- Therefore, it may not correctly model the impact of jobs lost “in the losing country”.

# TPP – How should we view it as Business Leaders?

- Take the US shoe market
- Offshored decades ago - Largely hands-on work with as much as 80 separate steps, therefore prefers cheap labor
- U.S. imports 98% of its shoes
  - 2.5 Billion pair
  - Vietnam workers make \$245/month
  - Tariffs range from 0 to 48%, average is 13%
- So is the proposed treaty a good idea?
  - Nike says YES
  - New Balance says NO
- The Difference? New Balance still has US manufacturing operations.

# So, what do we conclude?

- Does continuing globalization offer the best opportunities for the globe?
- Does the system preserve the rights of others?
- Some say de-globalization protects the jobs and assets at the national level. Critics say that globalization is the most efficient use of resources. Who's right?