Globalisation – Cause & Effect

"It has been said that arguing against globalisation is like arguing against the laws of gravity" – Kofi Annan

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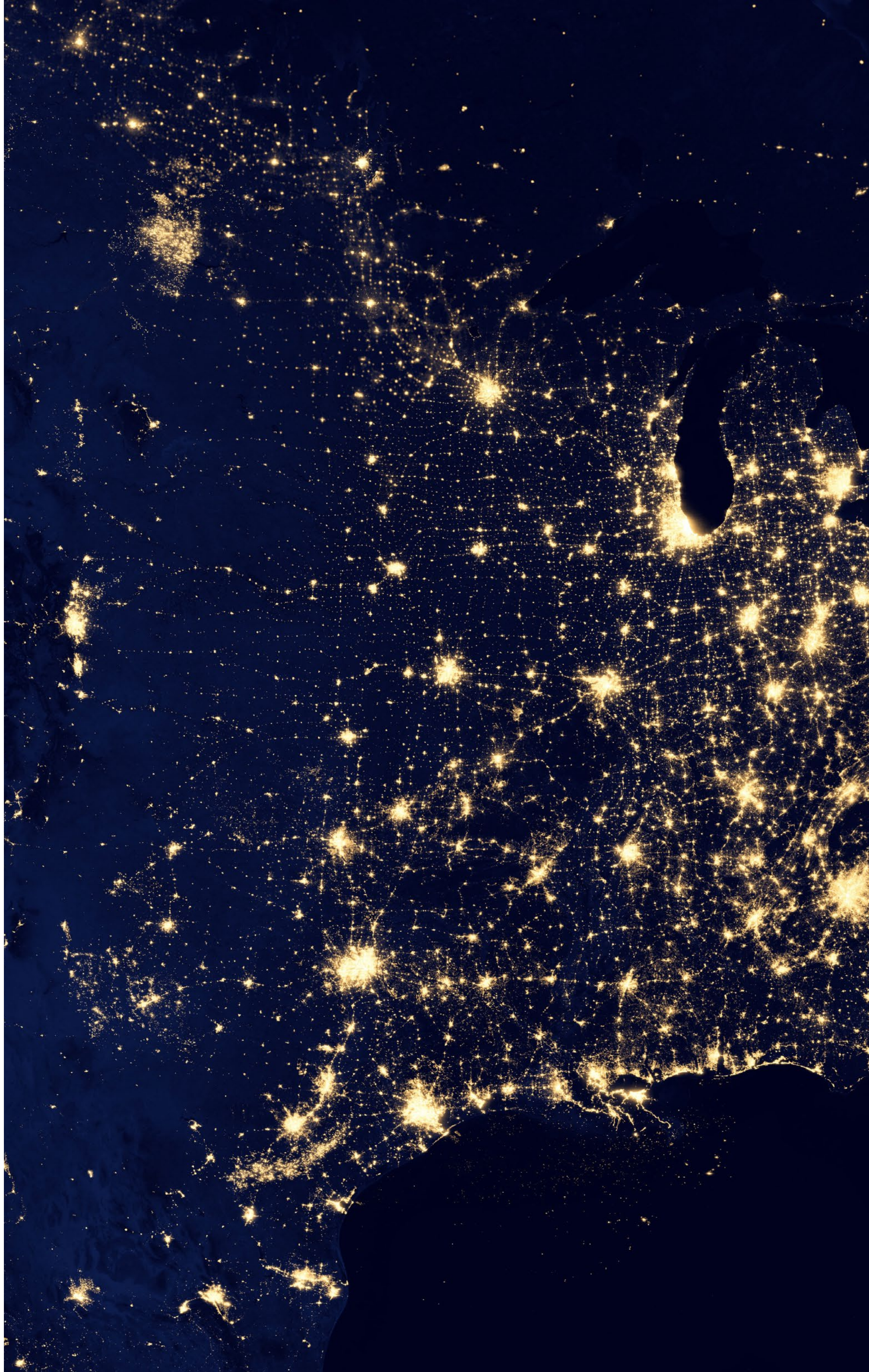
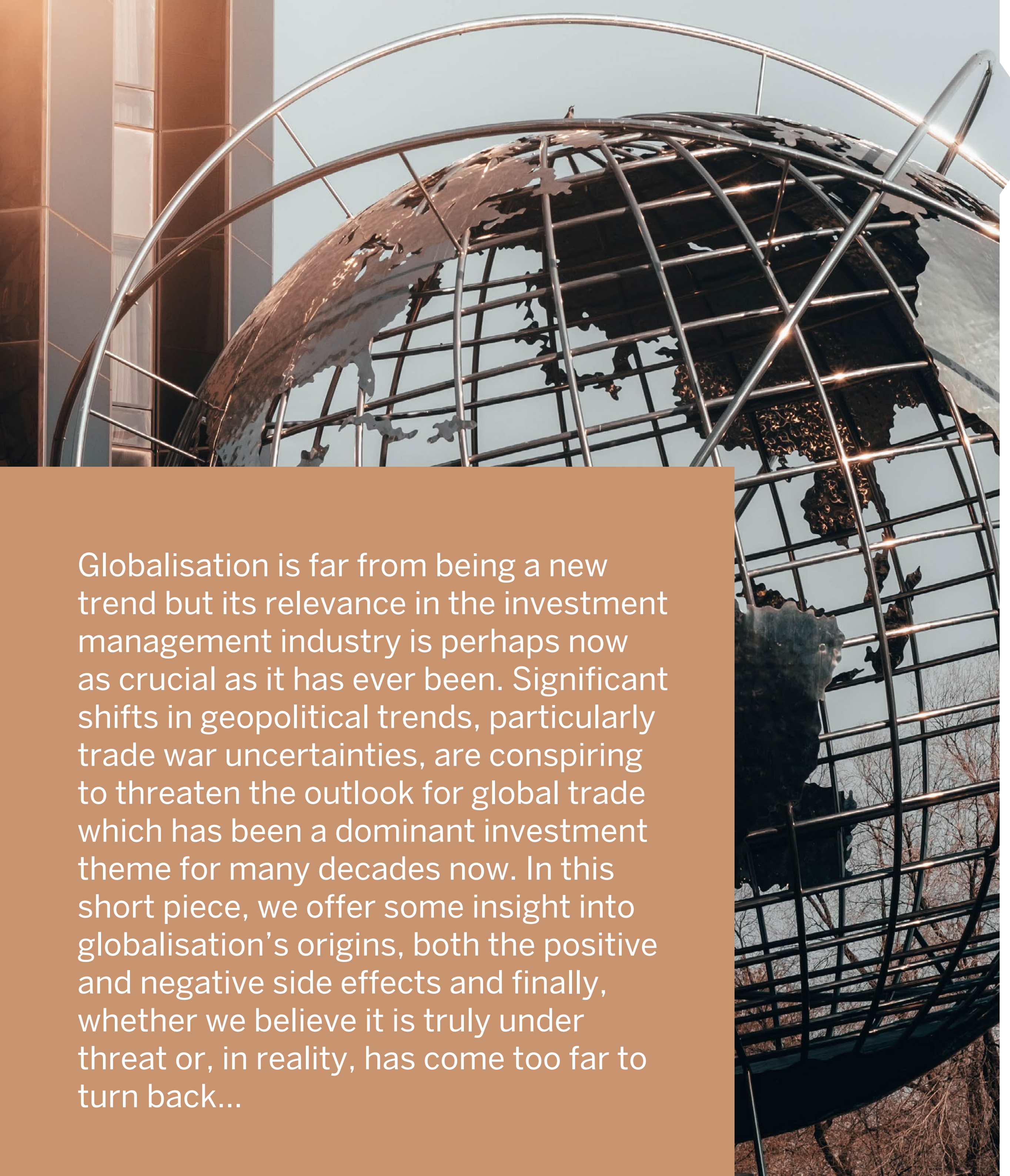
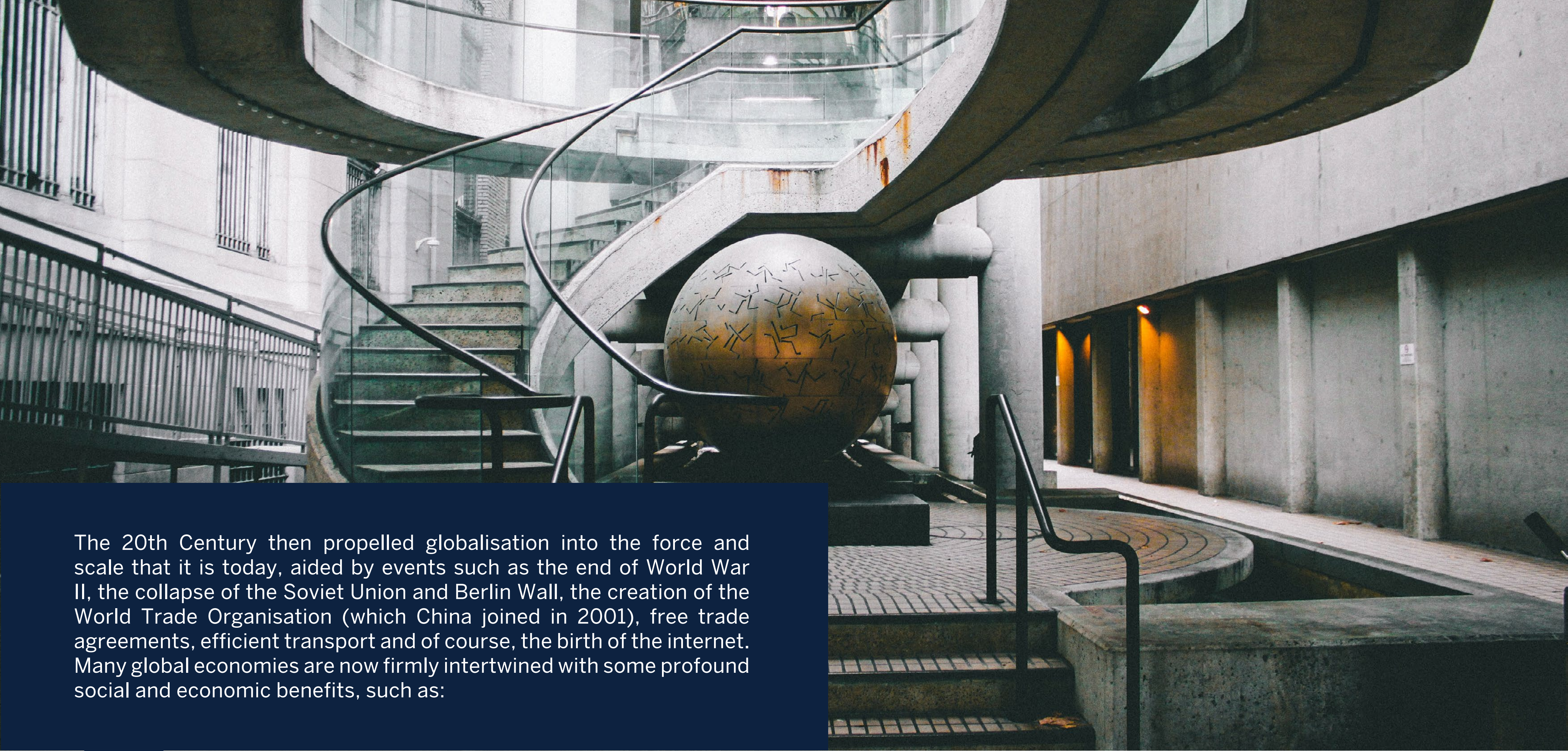




Globalisation is far from being a new trend but its relevance in the investment management industry is perhaps now as crucial as it has ever been. Significant shifts in geopolitical trends, particularly trade war uncertainties, are conspiring to threaten the outlook for global trade which has been a dominant investment theme for many decades now. In this short piece, we offer some insight into globalisation's origins, both the positive and negative side effects and finally, whether we believe it is truly under threat or, in reality, has come too far to turn back...

Depending on one's interpretation of 'true' globalisation, its origins are open for debate, given that people have been trading goods since time immemorial. Many attribute the opening of trade links between China and Rome along the Silk Roads (1st Century BC) as the first time trade transitioned from being local to global. Islamic commerce followed some centuries later with the Spice Routes (7th Century) which importantly, and unlike silk, were chiefly transported by sea. However, the first connections between the East and West (15th Century) in the Age of Discovery heralded the birth of a new paradigm in global supply chains. It was not until the founding of the British Empire and era of the first Industrial Revolution that true globalisation of international cross border trade really established itself as an economic game changer.



The 20th Century then propelled globalisation into the force and scale that it is today, aided by events such as the end of World War II, the collapse of the Soviet Union and Berlin Wall, the creation of the World Trade Organisation (which China joined in 2001), free trade agreements, efficient transport and of course, the birth of the internet. Many global economies are now firmly intertwined with some profound social and economic benefits, such as:

Living standards in many developing nations have improved exponentially with the proportion of people living in extreme poverty halving in the last 20 years.

Free trade has increased global competition, reducing monopoly profits, improving the quality of goods and lowering end-costs to consumers.

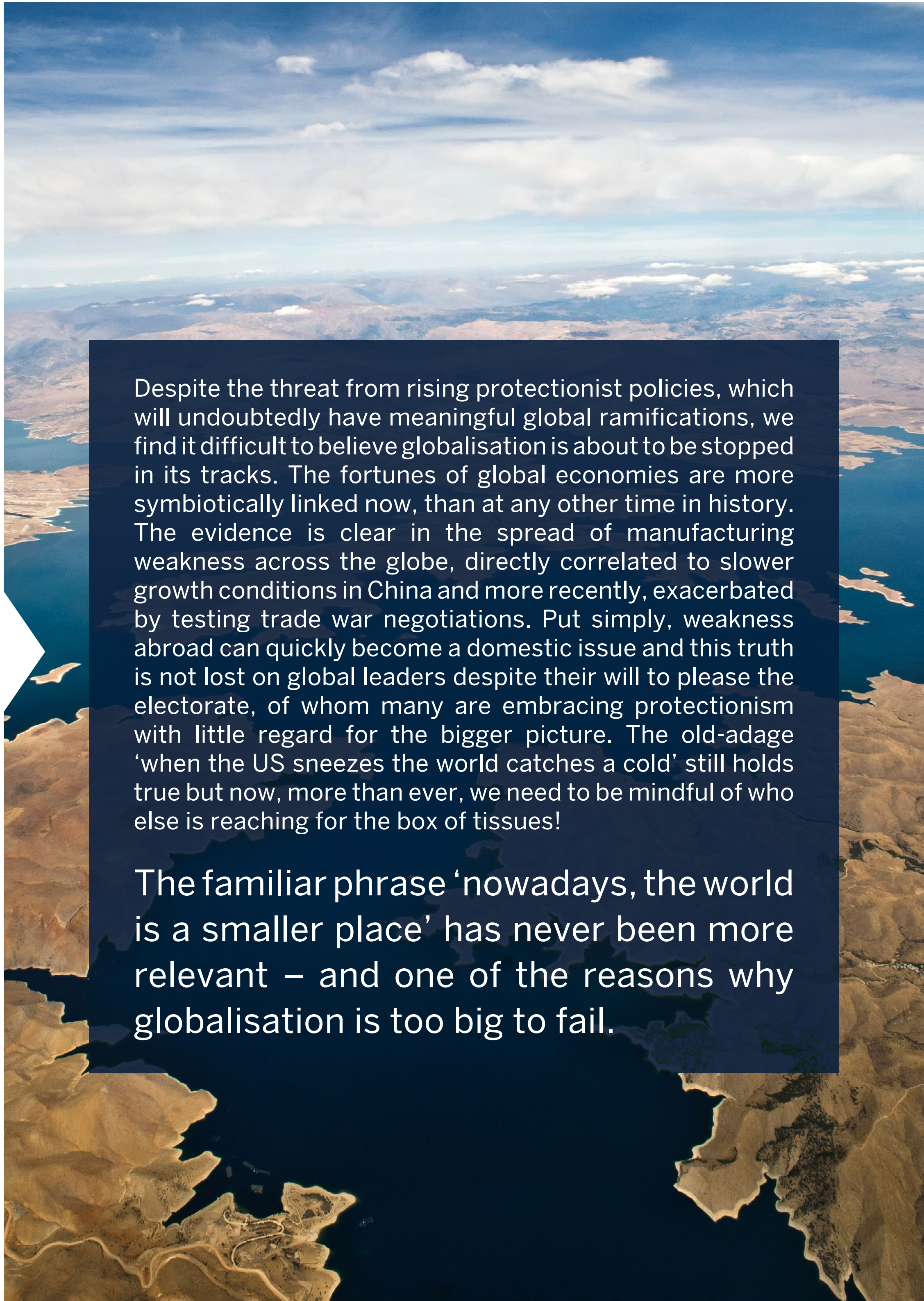
Free movement of labour, allowing countries with workforce shortages to fill posts and citizens of a country with high unemployment to seek employment elsewhere.

Increased communication and transport have brought down pre-existing barriers between many countries.

The free flow of people, goods and information has made it easier to access foreign culture (art, movies, food, music etc.)

However, benefits on this scale rarely come without consequences. Without doubt, the most important and negative by-products of improved global trade and growth have been the increased use of non-renewable resources (higher pollution levels) and de-forestation, both undeniably contributing to global warming. Indeed, it was refreshing to see that ‘climate change’ took centre stage at the recent World Economic Forum in Davos, a clear sign that sustainable investing will be necessary for the longevity of mankind and therefore a dominant theme for the future for investors to consider.

Other criticisms levelled at globalisation have been rising levels of inequality and trade imbalances. Countries running enviable large trade surpluses have been pushed into the firing line, provoking protectionist policies and ultimately trade wars. Recent tit-for-tat tariff negotiations between the US and China highlight these concerns and have undoubtedly contributed to a slowdown in global trade, only time will tell if this plays out as ‘short term pain for long term gain’. Ultimately, supply chains will adapt to new tariffs over time, but the economic and inflationary consequences remain unclear.



Despite the threat from rising protectionist policies, which will undoubtedly have meaningful global ramifications, we find it difficult to believe globalisation is about to be stopped in its tracks. The fortunes of global economies are more symbiotically linked now, than at any other time in history. The evidence is clear in the spread of manufacturing weakness across the globe, directly correlated to slower growth conditions in China and more recently, exacerbated by testing trade war negotiations. Put simply, weakness abroad can quickly become a domestic issue and this truth is not lost on global leaders despite their will to please the electorate, of whom many are embracing protectionism with little regard for the bigger picture. The old-adage ‘when the US sneezes the world catches a cold’ still holds true but now, more than ever, we need to be mindful of who else is reaching for the box of tissues!

The familiar phrase ‘nowadays, the world is a smaller place’ has never been more relevant – and one of the reasons why globalisation is too big to fail.

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