

- 1 HOW COVID-19 CHANGED GLOBAL TRADE FOREVER
- 2 HOW TRADE RELATIONSHIPS & TARIFFS ARE AFFECTING TRADE WORLDWIDE
- 3 THE IMPACT OF DIGITALISATION ON TRADE
- 4 DE-GLOBALISATION - A NEW WAY TO TRADE, BUT WILL IT STICK?**

From crisis to opportunity:
what's the future of trade?

De-globalisation - a new way to trade, but will it stick?

June 2021



4

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- 2 HOW TRADE RELATIONSHIPS & TARIFFS ARE AFFECTING TRADE WORLDWIDE
- 3 THE IMPACT OF DIGITALISATION ON TRADE
- 4 **DE-GLOBALISATION – A NEW WAY TO TRADE, BUT WILL IT STICK?**

“

Regardless of where in the world you are and where the business is located, where you're trading, and whether you will see this change or not, the principles of trade remain the same.

”

Andreas Tesch

Audience Q&A



Any advice on minimising the risk of trading during the pandemic?

The basics will still apply. So, knowing your customer, doing proper due diligence and having good credit management procedures in place. And also being flexible.

Eric den Boogert

De-globalisation – a new way to trade, but will it stick?

The Covid-19 pandemic is the greatest crisis of our generation. It has impacted the way we live, the way we work and the way we trade. In light of such huge disruptions there has never been a more important time to reflect, take stock and ask important questions about the way we do business. What is happening, what is likely to happen next and what can businesses do to navigate uncertainties? This is the driver behind our series of webinars, *From crisis to opportunity: what's the future of trade?* Identifying current trends and asking, 'where next?', have formed the basis of the questions we have posed to some of the world's leading experts on economics, geopolitics, digital technology and trade.

De-globalisation – a new way to trade, but will it stick? is the final in our four-part series. As Andreas Tesch, Atradius CMO, acknowledged in his introduction to the webinar, the "event focuses on de-globalisation, and in many ways brings all of the parts of previous webinars together". De-globalisation is influenced by the pandemic, trade relationships and digitalisation – the three topics discussed in the previous webinars.

In this final event, our panellists featured the leading economist, author and academic, Dr Linda Yueh, Assistant Financial Director, Valbruna, Valter Viero, Director of the Dutch trade association, evofenedex, Bart Jan Koopman, and Eric den Boogert, Managing Director Asia, Atradius.

Our panellists' views do not necessarily reflect the views of Atradius. Any observations or reflections shared during the webinar and captured in this white paper should not be taken as Atradius insight or advice. This webinar was introduced by Atradius CMO, Andreas Tesch and moderated by journalist, Daisy McAndrew.

Key themes

Globalisation vs de-globalisation

What are the key trends? Does the current slowdown in global trade indicate de-globalisation and, if so, is this trend likely to be permanent?

Covid-19 and cross-border trade

Are businesses changing their supply chains and approach to production in response to pandemic-induced supply chain disruptions?

International relations

Do issues such as cross-border trade relationships, tariffs and trading blocs have an impact on de-globalisation? What are the key issues?

Is Asia reshoring?

What are the current manufacturing and distribution trends in Asia? How will these impact the region and world trade?

The impact of Mode 5 Services

What are Mode 5 Services and how important are they for global trade flows, and what impact could they have on developing markets?

What are the most important factors influencing supply chain decisions?

Cost, customer relations, international relations, carbon footprints: many factors can influence a business strategy on where to make and where to sell.



De-globalisation and the redefining of trade

Will we stop doing business overseas? Will we stop travelling?

De-globalisation can be defined as significant reduction in the effects of global movement. This shrinking world would likely include a drop in overseas travel, cross-border trade, the number of people studying abroad, and more. For many of us this is a destabilising and worrying thought. The ability to do all these things has been with us our entire lifetimes. Will this end?

For Dr Linda Yueh, the answer is more nuanced than a simple yes or no. She explained: “Will we stop doing business overseas? Will we stop travelling? I think the answer to that is not entirely, but there are geopolitical, as well as some technology reasons why we see this trend of a slowdown of what we do across national borders. And I think that probably better captures what de-globalisation is.” This “slowbalisation” can be seen in the decline of the global merchandise export-to-GDP ratio. This trend began in 2008 and represents the first time that globalisation has been in decline since World War II.¹ The pandemic has also played a part and possibly accelerated some trends. This includes supply chain disruptions, increases in freight costs and examples of protectionism, particularly for both vaccines and PPE (personal protective equipment including gloves and face masks). However, the outlook is far from black and white. One of the fastest growing areas in terms of global trade is digital data services, resulting in an acceleration of digital globalisation.

Although businesses choose where and how to trade, future global supply chains maybe partly dictated by policymakers. As Linda explains: “I think de-globalisation is likely to stick, at least this kind of trend, unless we can make trade, not just free, but fair. And that means having global rules and also helping people adjust to the impact of changing trade and technology and that’s a very big issue for lots of countries”.

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This is both a time of uncertainty, but also opportunity. How we redefine trade is the answer to the ‘trillion-dollar’ question.

Dr Linda Yueh

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Audience Poll #1

DO YOU FEEL CORPORATIONS ARE REORGANISING THEIR SUPPLY CHAINS BY MOVING PRODUCTION AND / OR FINDING NEW SUPPLIERS?



87%

YES

13%

NO



Audience Q&A



What's the connection between de-globalisation and inflation?

Inflation at the moment is driven by a release of pent-up demand. So you see this pattern pretty clearly when people are able to leave their homes, and to travel. You begin to see price pressures and that's what inflation is, which is a price increase. Traditionally, globalisation has brought down prices because manufacturing is cheaper in emerging economies... I think going ahead it's going to be a more complicated relationship. There won't be a massive sort of major economic force, there'll be other things like growing population, like supply chain distortions.

Dr Linda Yueh

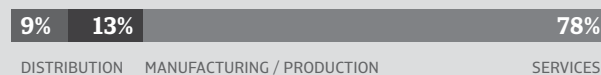


Our pre-event questions

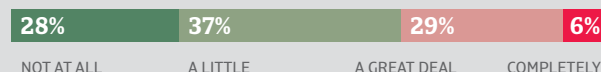
We asked 4 questions in advance.

We wanted to find out how businesses view the possibility of de-globalisation and whether they are considering re-organising their supply chains.

WOULD YOU DESCRIBE YOUR BUSINESS AS (MAINLY)?



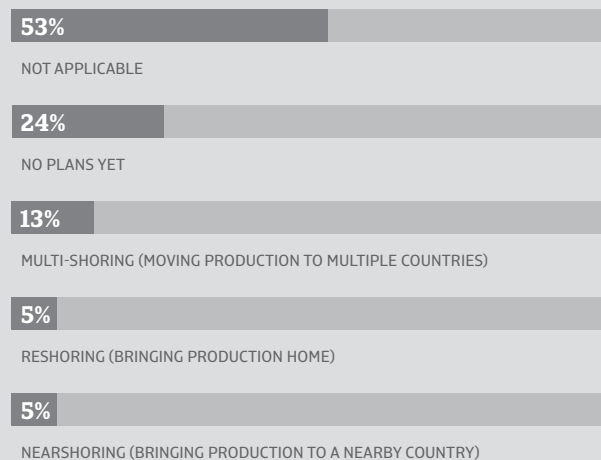
DO CLIMATE CHANGE LAWS AND SUSTAINABILITY CONCERNS IMPACT THE WAY YOU TRADE?



ARE YOU SEEING TRENDS TOWARDS DE-GLOBALISATION IN YOUR INDUSTRY?



HAVE YOU ALREADY, OR ARE YOU CONSIDERING IN THE FUTURE, ANY OF THESE OPTIONS IN TERMS OF YOUR MANUFACTURING OR PRODUCTION?



How has Covid-19 impacted global trade?

Trade flows and trading routes

With border closures, quarantines and protectionism, Covid-19 has caused many disruptions to global trade, including a rethink of some supply chains. However, although this may suggest de-globalisation, the pandemic itself is global. Likewise, some responses to its effects including vaccine development and increased digitalisation have also been global in nature. But what has the last 18 months been like for businesses?

The Italian manufacturer, Valbruna, is embedded within strategically important supply chains. The company produces high-performance stainless steel and nickel alloy bars and wires for industries such as power generation, aerospace and automotive. We asked Valter Viero, Assistant Financial Director of Valbruna, whether the pandemic had disrupted trade. He said: “The trend started, at least in our industry, before the pandemic. It started with the Trump presidency in the US. And as soon as Trump was elected, a lot of discussions about reshoring started.” Valter explained the influence that geopolitics and tariffs can have on supply chains. However, he acknowledged Covid-19 added an extra dimension and said: “Disruptions due to Covid-19 gave us more of an operational urgency to have shorter and more compact and resilient supply chains.”

“

Of all the different words that have been used, the one I liked most is ‘nearshoring’, in the sense that, unless a country is very big, like the US or China, it’s generally quite difficult to think of a self-contained supply chain within one country.

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Valter Viero

For Valbruna, the answer lies not in reshoring (retaining manufacturing and distribution within Italy), but with nearshoring, establishing manufacturing capabilities closer to their market in the US. This includes the opening of a plant in the US and a meltshop in Canada, enabling the company to be closer to their customers, both in terms of physical delivery and also in cultural understanding and exchange of information. “This move, which predated the Covid-19 event, considerably shortened our North American supply chain. So we changed from shipping containers through the Atlantic Ocean to a simple 400 mile road delivery. It’s much shorter and at much reduced costs and risks”, he said.

Business stress and insolvencies

Interestingly, the pandemic did not lead to mass insolvencies as predicted by some observers. Atradius Managing Director Asia, Eric den Boogert, explained: “Logically, you would expect that there would be quite a lot of insolvency. Of course, governments have stepped in, in an enormous way, that we haven’t seen since 2008. And they have stepped in earlier and with more force. So we expect that will have a huge impact. But even then, I think, it’s surprising actually how low the default levels have been for the last year and a half.”



“

Research finds that if you were to have a global standard and understanding of how you deal with [Mode 5 Services] in traded goods, it actually boosts trade in goods.

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Dr Linda Yueh



How important are Mode 5 Services for global trade flows?

Mode 5 Services are services that are exported as part of a good. An example would be a smartphone. The phone itself is the physical good and may be subject to specific trading taxes and tariffs. However, the phone also contains value-added embedded services in the form of creative design and R&D. The rise of the Internet of Things is a factor influencing a growth in Mode 5 Services. A customer buying a smart fridge, for example, will be seeking the enhanced services that its connection to the internet brings. Likewise, a manufacturer investing in sensor-enhanced connected production lines.

As Linda explained: “Most things have quite a lot of value-added from the R&D, from inputs which are not just captured by the physical stuff. So, this is an area which is growing quickly, and this is where technology [design] begins to look physical. And the reason this is so important to understand for trade, is because if you were to deliver, credit insurance for instance, across national borders, that's not subject to a tariff. However, when it's embodied in a physical good, it is subject to a tariff. So, having better governance around this could actually unleash a lot of global trade, and that's where the Mode 5 Services push at the World Trade Organization (WTO) by some countries led

by the European Union is coming from. So, in other words research finds that if you were to have a global standard and understanding of how you deal with insurance, R&D, design in traded goods, it actually boosts trade in goods.”

How much can the WTO smooth the path of international trade?

The primary aim of the WTO is to make sure that trade flows as smoothly, predictably and freely as possible around the world. It is an international body that deals with the rules of trade between nations. However, although its role is to police this rules-based system, the webinar panellists acknowledged its limitations.

Linda explained that the WTO's consensus approach for setting rules for global trade requires 164 countries and blocks to agree. In many ways this is an almost impossible task, and only further complicated when issues such as rapidly developing technology and data management are added into the mix. Bart Jan Koopman, Director of the Dutch trade association evofenedex, said: “The WTO is in pretty bad shape, and we have quite a lot of problems to get protectionism out of that system. And I think that is what a lot of my companies, at least, do experience.”

What factors are shaping the major supply chain trends?

Cost is a major factor influencing supply chain decisions in Europe

The pandemic highlighted a range of factors influencing supply chains. In the snap poll of our webinar audience members, cost was revealed to be leading factor influencing business decisions on where they manufacture and where they sell their goods. Bart Jan noted that although some of his organisation's members are choosing to bring production back from places like China to Europe, this can be quite a costly process and is currently limited to a small proportion of the membership base. However, he also acknowledged that the spiralling cost of transport is hitting many businesses hard. He said: "A lot of our customer base is complaining about the price of containers, which has gone through the roof and is sometimes tenfold what it was just one or two years ago."

Research by Gartner identified supply chain agility and resilience as the two most important factors cited by businesses.² The vast majority of the businesses they interviewed said they planned to make their supply chains more resilient over the next two years, although many said they faced trade-offs between resilience and cost. Although greater resilience could be achieved through reshoring and the creation of shorter supply chains, this is not the only solution and in itself may not necessarily drive de-globalisation.

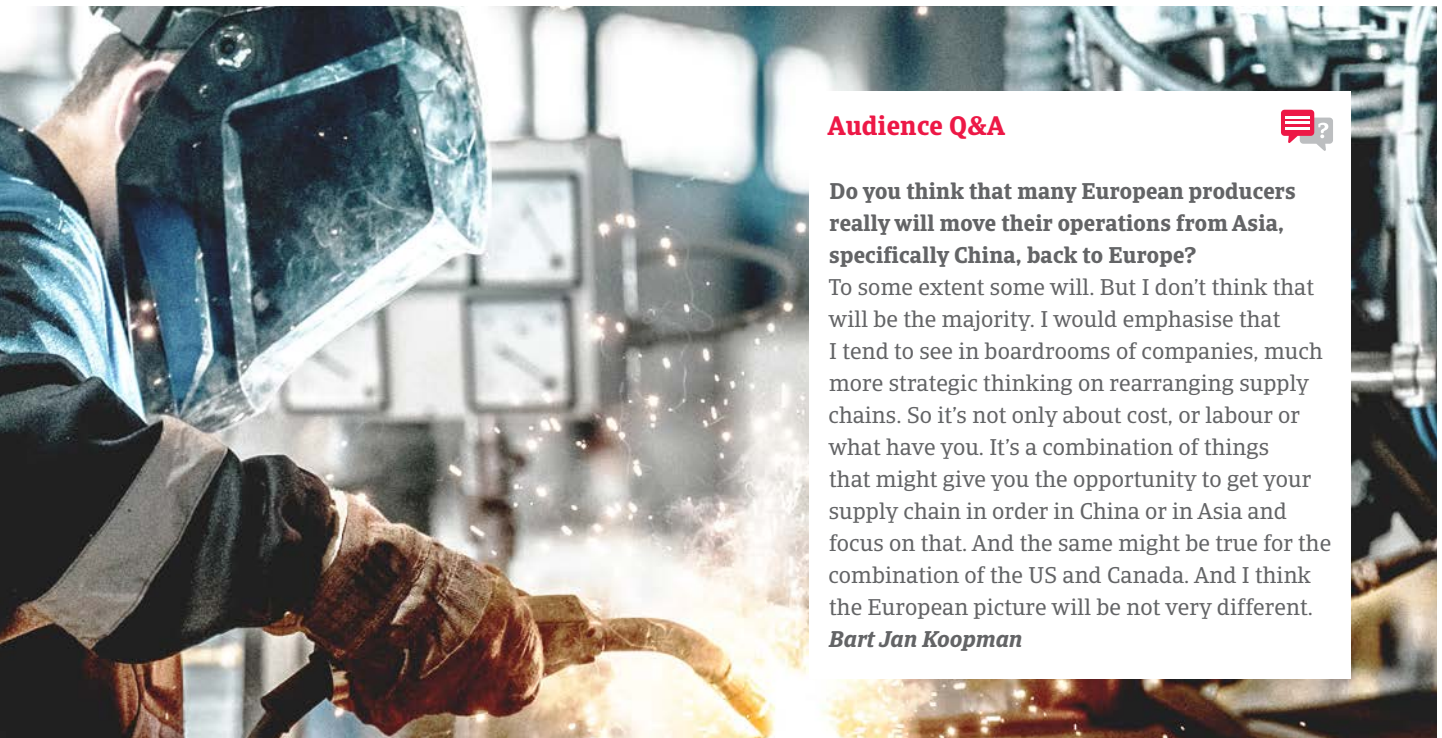
For Bart Jan, working and liaising with a large number of businesses throughout the Netherlands and Europe, a further key issue is geopolitics. He said: "From our experience, we're getting much more into a world of real trading blocs. And it's not so much that globalisation has stopped, but we get more of an issue like the China-US issue. But also the US-Europe issue is still there. And I think it would be naive to think that changing the Trump administration for the Biden administration, and all of a sudden, the protectionism in the US would be gone. I don't think that is the case... the steel and aluminium tariffs, they're still there and they're not going away."

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Protectionism is increasing, to a large extent, so that is one of the underlying drivers, why people and companies are trying to adapt, not only their supply chain but their whole way of doing business.

”

Bart Jan Koopman



Audience Q&A



Do you think that many European producers really will move their operations from Asia, specifically China, back to Europe?

To some extent some will. But I don't think that will be the majority. I would emphasise that I tend to see in boardrooms of companies, much more strategic thinking on rearranging supply chains. So it's not only about cost, or labour or what have you. It's a combination of things that might give you the opportunity to get your supply chain in order in China or in Asia and focus on that. And the same might be true for the combination of the US and Canada. And I think the European picture will be not very different.

Bart Jan Koopman



Audience Poll #2

WHAT ARE THE KEY CONSIDERATIONS WHEN CONSIDERING A CHANGE IN SUPPLY CHAINS? PLEASE RANK IN ORDER OF IMPORTANCE.

1. Cost

VERY IMPORTANT

2. Minimise disruption to supply chains

PRETTY IMPORTANT

3. Credit Risk

IMPORTANT

4. Close to customer

LESS IMPORTANT

5. Labour / skills

NOT THAT IMPORTANT

6. Carbon footprint / sustainability

NOT IMPORTANT

Asia remains attractive trading partner for Europe

As Eric den Boogert noted, concerns about supply chain resilience and discussions over reshoring or de-globalisation are not confined to Europe or North America. He said: "Where a few years ago people were hoping that the US-China trade war would be a temporary issue, companies have now accepted that it will be a more permanent fact of life. Companies are looking for alternatives for sourcing and manufacturing, and manufacturing in China for other reasons than cost."

Eric explained that the shift to set up alternative supply chains had been in existence in Asia for many years prior

to the pandemic. Primary examples of this are the growing manufacturing hubs in Indonesia and Vietnam. In light of rising wage costs in China, in addition to its systemic shift away from an export-driven economy to one more focused on its substantial and growing domestic demand, economies such as Vietnam are stepping into the breach to offer low-cost labour. He said: "If you look at labour costs, China is getting more and more expensive."

They are moving up the value chain and this is also clearly a policy. But on the other hand, it's still very efficient. So I think it's challenging to give a general answer for the whole region because it's so big and so diverse."

“

A recent study by the EU Chamber of Commerce in China on business confidence, painted a very positive picture of European companies in the country. Although some manufacturing could move, the huge domestic market and the enormous manufacturing capabilities are still very interesting even for European companies.

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Eric den Boogert

What are the most important factors influencing supply chain decisions?

Supply chains are usually the result of a commercial decision made by companies. Businesses are best placed to decide where they should manufacture or procure goods or services and where is their best market. They will consider what is cost effective. They will want to serve their customers and will take steps to meet their customers' needs, possibly both in terms of what they sell but also in how they create and deliver the final goods or services.

As Valter explained, cost is not always the most important factor driving these decisions. In the case of Valbruna, the key driver was being close to the customer and strengthening customer relations. He said: "We would say that the proximity to our customers is the prevailing factor. In some other industries, maybe the cost factor as it has resulted from the poll, is more important and for maybe other cases, to avoid disruptions and so on, is more important. So, in my opinion there is not one correct answer, it depends on the type of industry and the type and philosophy of the company too."

Bart Jan agreed and explained that even traditional manufacturing businesses are increasingly adding services to their business models, selling software or support alongside the product and, in so doing, creating ongoing relationships long after a product has been delivered.

For some businesses, recent technological advances such as additive manufacturing (3D printing) means that it may be more cost effective and efficient – offering greater just-in-time production opportunities – to establish production geographically close to customers. As Linda explained: "Part of what drives reshoring is technology, and greater efficiency and automation so I think all of that will play a factor." She added: "You want to make supply chains resilient, but you also want to keep ahead of the technology. So another technology which shortens supply chain is things like additive manufacturing. In other words, instead of getting it, even in a just-in-time supply chain, the technology is there just to print the part that you need, and then you stick it in."

“

We are in a transition period with a lot of big challenges from climate to all kinds of other things. I think rebalancing in this transition period comes with quite a few geopolitical issues. I do hope that this rebalancing means that we're getting, and still keeping up, the good things about globalisation.

”

Bart Jan Koopman



Audience Poll #3

DO YOU BELIEVE DE-GLOBALISATION WILL STICK?



59%

YES

41%

NO



Audience Q&A



Now that the pandemic has revealed the crucial interdependence between manufacturers and raw material suppliers, do you think suppliers can press for better prices?

Maybe in the short term but then things will tend to adjust in the longer term. I believe that the nearshoring concept will play a role here because, for instance, there is a big concern by the US of China being a dominant supplier of rare earths. But there are a lot of rare earths that can be mined in Canada as well. And so, it is in the best interest of the US and Canada to partner and develop this industry across borders in the US and Canada.

Valter Viero

Supply chain resilience for strategically important sectors

Although a degree of supply chain resilience will have operational significance for any business, it takes on an additional level of importance for strategic key sectors. Recent events have brought this issue to the fore with supply issues most recently impacting PPE and semiconductors. As Bart Jan acknowledged: “In a connected world, when we don’t have access to chips, everything stops”. This has certainly been the case in the automotive industry which is struggling with the current semiconductor shortage.

As chair of the LSE Economic Diplomacy Commission, Linda has been working with a group of economists studying a wide range of economic, geopolitical and other trends impacting the UK and international trade. A key recommendation of the Commission is to “designate and stress test systemically important supply chains.”³

The advice notes that following the 2008/2009 banking crisis, an international body set up by the G20, the Financial Stability Board, worked with national authorities and national banks to identify systemically important financial institutions (SIFI). These would include banks whose full or partial collapse would cause significant domestic or global disruption. These banks are subject to rules over prudential policies and annual ‘stress tests’ to ensure they could withstand potential shocks. The Commission’s advice is that a similar system should be applied to supply chains that service health, defence or key industrial imports.

Linda explained that this is one area that major economies are beginning to take more seriously. She said: “If you look at the G7 communiqué, there is a section where they agree that they will in the future stress test systemically important supply chains. So, that is the conflation of economic issues, which is companies making efficient commercial decisions, with national security intelligence data concerns of these countries. That’s a trend that continues.”

“

If there was a closure of borders, would we still be able to deliver essential services? Now the operationalising of this is, obviously challenging, to say the least, but the direction of travel is consistent with countries now taking a more active stance within supply chains. I think we will see this continue.

”

Dr Linda Yueh



How ESG concerns may drive de-globalisation trends

The most successful companies are the ones that deliver exactly what their customers want and can add value to the transaction. Increasing numbers of people are concerned enough about climate change to demand ESG (Environment Social Governance) actions from their suppliers, or to favour suppliers that can help minimise their own carbon footprint. This can be seen in shoppers who choose to buy local to minimise the amount of airmiles associated with their food or clothes or consumer goods. However, it is also a trend increasingly evident in the B2B environment, with many contracts including green clauses and scrutiny of supply chains through green lenses. In recognition that transport is a major emitter of greenhouse gases, many businesses are seeking ways to shorten supply chains, reshoring or nearshoring their operations.

Sustainable business policies are not just driven by customer preferences and consumer demand. Government legislation is also an important driver. As Bart Jan noted: “If you have in the very near future, for instance, a Carbon Border Adjustment Tax from the European Commission, you might indeed want to take much more production here in Europe and you feel more protected. If that’s not coming through, why would you want to change your production?”

Linda agreed with Bart Jan and said: “If the European Union were to put this forward in a WTO compliant way in the next two years, that will have a significant potential impact on supply chains. Because any production, which doesn’t meet the same environmental standards in terms of emissions as a European producer within the EU,

then will be subject to an additional tariff to equalise the impact of carbon.” She added: “So a carbon tax is what most economists think we will eventually head to in order to address climate change, and this will not be the only initiative around what’s known as carbon leakage.”

ESG concerns are not confined to manufacturing and production businesses. The “intangible economy”, service-led businesses that do not make anything physical but do rely on digital technology, can also be responsible for the creation of carbon. This is because data centres emit a lot of energy and need a lot of energy. This means that even services industries can have a massive impact on carbon emissions and may need to rethink operational practices in the light of potential green legislation.

Audience Q&A



Can the planet survive ongoing globalisation in terms of climate change? Is de-globalisation what the planet needs?

Climate change is something that will transform the way that we organise trade and production. Because we all say, business needs to serve the customer and the customer wants to have trade and manufacturing and their products and services done in a sustainable way. Because people are concerned about climate change and that will push companies to try and change their behaviour. And that may actually predate any real green transition, especially in the transport sector.

Dr Linda Yueh



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This paper captures the views of the webcast's virtual panel and is not necessarily a reflection of the views of Atradius. Visit the Atradius YouTube channel to access a summary version of the webinar.

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