



## COVID HAS DECELERATED GLOBALIZATION, BUT NOT ENDED IT

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Will globalization survive in the COVID era? This question was the subject of debate at the UBS Reserve Management Seminar held on 28 September, in a session based on a [white paper](#) co-written with IMD.

“There was a debate in the global economy about whether COVID-19 would be the final punch for globalization,” said Massimiliano Castelli, Head of Strategy for Sovereign Institutions at UBS Asset Management. But this has not really materialized. Coronavirus largely represents an accelerating of existing globalization trends, rather than a full paradigm shift.

Globalization has ebbed and flowed over the years, but the event panelists agreed that the 2007-08 global financial crash marked a turning point and kicked off a trend that *The Economist* magazine dubbed “slowbalization”. Falling income, increasing unemployment and inequality proved fertile ground for the rise of nationalism and anti-immigration rhetoric.

That decoupling has been turbocharged by the coronavirus pandemic, leading to a drop in global coordination and rising protectionism because of health and security risks. That is reducing production and consumption, dragging down global economic growth.

What is more, a potential shift towards domestic production, which was well underway before coronavirus, could accelerate, as could rising barriers to the free movement of goods, people and capital that underpin globalization. “Countries are building walls that separate us; we cannot travel as easily as before. Global supply chains have become massively disrupted,” said [Arturo Bris, Professor of Finance at IMD](#) and co-author of the paper.

Technology is at the heart of this unilateralism. In the past two decades, we have seen a shift in the global economy, from a reliance on tangible to intangible assets such as software, which does not require complex supply chains. The rise of artificial intelligence could also displace cheap labor and drive reshoring in advanced economies. COVID-19 lockdowns have only accelerated such digitization.

“It’s true we will have less globalization in terms of goods and services, but more in terms of data,” added Bris.

Supply chains are expected to shorten because of coronavirus, which has exposed the western world’s dependence on Chinese generic drugs and led pharmaceutical companies to shift production to safer locations. Meanwhile, the

slowdown of the automotive industry is dampening demand for the global supply of components.

Another rise in populism could be on the horizon as well, the whitepaper noted, as millions of people around the world are plunged into poverty. And the reputation of international organizations such as the World Health Organization has been weakened, which may further reduce global cooperation.

Compounding this is the deterioration in US-China relations and an escalating trade war. The resulting uncertainty is delaying companies' investment decisions and curbing the global capital flows which are a key pillar of globalization.

"I think that US-China relations, geopolitical tensions are unlikely to reverse or change direction no matter who becomes the new president in the US," said Tao Wang, UBS chief China economist and Head of Asia economic research, at the bank's seminar.

"Those pressures and national security concerns, and the decoupling on national security and the tech grounds, will continue. There will be profound long-term impacts on the restructuring of supply chains. Maybe we will have regionalization."

What does this all mean for executives and investors? To establish the relative importance of globalization on stock returns and profitability, IMD measured annual stock price performance and return on the invested capital of 27,147 firms from 85 countries between 1991-2019. It found the most important determinant of stock performance is global factors, which account for 16.7% of the variability of stock return.

However, since the deglobalization process of 2009, the importance of global factors in stock returns has been falling on average. This underscores how crucial individual countries are to global businesses and markets.

"We are going to be in a less globalized world," said Bris. "It means national forces, governments, are going to become more important today than ever. And differences across countries are going to emerge, because we will have different types of governments."

## **So, who will be the winners and the losers in a deglobalized world?**

The most successful countries in the near future are likely to be those that can generate social consensus on policies; small economies that are protected by nearby large markets like China or Europe; and countries with strong public finances that can prop up their domestic economy, such as Switzerland.

This prediction is reflected in the [2020 IMD World Competitiveness rankings](#), which factors in some of the coronavirus impact. The rankings showed that the top five most competitive economies were all relatively small (Singapore, Denmark, Switzerland, Netherlands and Hong Kong).

Exporting countries that cannot rely on domestic markets will be the big losers, such as India and many African nations. Oil exporting countries may also run into trouble because of growing sustainability concerns. So-called green policies will become a key differentiator for countries, as will taxation to finance the post-pandemic recovery.

So, is this the end of globalization as we know it? Not quite. We are shifting to a new model of globalization that is more localized, focused on services, less capital and energy intensive. Globalization will survive in the COVID-era, but it will look vastly different.