Deglobalisation...? Not in 2024!

There is much noise around deglobalisation. Surely like all bad news deglobalisation sells. It enables opinion makers, bespoke consultancies and reporters to cast themselves into the limelight by forecasting a grim future. But I do not expect a major cataclysm occurring over the next year.

The talk

Davos, barely a year ago. Deglobalisation featured as a focal topic at the World Economic Forum's bespoke summit. Ensuing, the forum posted that "Slowbalisation following the 2008 financial crisis may be turning into deglobalisation". In its 2022 geopolitical risk analysis, S&P Global also finds that deglobalisation is something corporations should reckon with.

I could proceed with citations – prophets of doom come in cohorts – but for a last one: in July 2023 Bloomberg analysts took the view that "Multinational companies are rethinking their corporate structures for a world that looks more like the 1930s than the 1990s."

But not all agree. Barely a year ago McKinsey notes that globalisation is not going away. The consultancy pones that the world is more connected than ever before, noting that "Over the past five years, the largest economies have not systematically diversified the origins of imports". The OECD concurs. It found that there was no general trend towards deglobalisation in the period up to 2020. In fact, by 2019 fragmentation of production across multiple countries remained at a historically high level, confirming a stabilisation of the depth of global economic integration. And these are just two of many viewpoints.

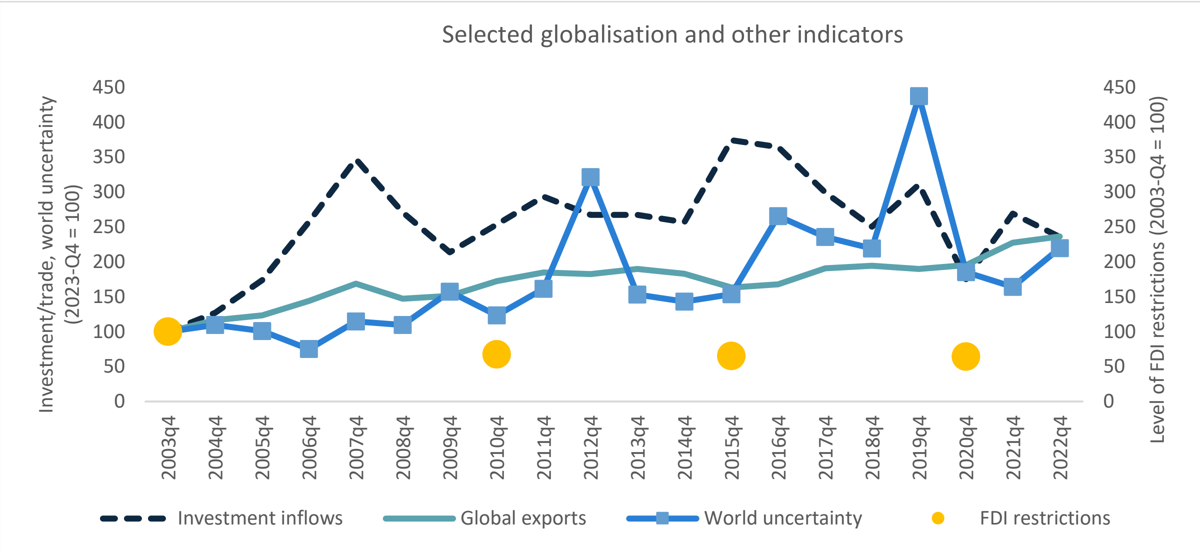
The walk

True, global trade and cross-border investment have oscillated over the last few years with corporate executives navigating a playing field characterized by increased uncertainty. But that does not imply that we are in for a radical change. Certainly not when taking a mid/long-term view.

Just consider some facts for the 2003-Q4 through 2022-Q4 period:

- The two-decade trend for corporate cross-border investment is up.
- Likewise for global exports, even if at a more modest pace than cross-border investment.
- Across the world, the level of restrictions on foreign direct investment has reduced by 36% between Q4 2003 and 2020.

This notwithstanding that in the mean-time the IMF's World Uncertainty Index steadily increased from 100 in 2023-Q4 to 138 in 2023-Q4.



Forward view

Through 2024, and quite likely beyond as well, world uncertainty will be on the rise leading business leaders to prioritize operational resilience. Expect increased vertical diversification locally and nearshoring of supply lines globally. But not overnight. Too much human and corporate capital has been invested in long-stretched value chains over the last three decades. That cannot be easily undone.

Cash is king (again). As in all times of increased uncertainty, CFOs will tighten the reins on capital outflows with CEOs asking their teams to "do more with less".

There is cause for optimism as well. The IMF projects global growth at 3.1 and 3.2 percent for 2024 and 2025 respectively. But not all regions will benefit equally. JP Morgan sees a soft landing for the US economy remaining in reach. The OECD translates this into US' GDP growth of 2.1% in 2024 and 1.7% in 2025.By contrast, the European Central Bank expects Europe's economic growth to remain weak in the short term. It predicts the region's growth to be 0.8 percent in 2024 and 1.5% in the two subsequent years. As for Asia in 2024, the IMF expects a 4.5% GDP growth.

Government stimuli continue on the uptake. 2022 and 2023 witnessed a growth of government spend on economic development incentives. These include subsidies towards corporate R&D, upskilling, “green” technologies, and towards job creation and capital expenditure at large. With direly needed economic growth – if not elections - at stake, governments are fiercely competing for corporate investments and racing to adapt regulations. Just consider how the United States’ Inflation Reduction Act spurred EU authorities to loosen-up on their very rigid state aid regulations. Expect for this race to the bottom to continue through 2024.

Implications for location strategy

Right-shoring, resilience and restructuring will be front and center as companies realign their footprints with a regionalizing world. Yet that does not come without challenges. Reshoring - for one – will be hampered by inadequate ecosystems. This because through the last decades manufacturing know-how; skills and suppliers have all far-shored to (Asian) low-cost locations.

Then there is the talent demand-supply mismatch. DevelopmentAid – a specialist consultancy – estimates that by 2030, around 85 million jobs will remain unfilled globally due to skill shortages. A problem facing both mature and emerging economies. For some countries it is much a matter of aging population. For others, education systems have been slow to adapt to the rapidly changing economic context. Yet on the upside: more than a handful of geographies have long-recognized the problem and are now reaping the economic benefits of their forward looking policies.

Companies seeking to establish manufacturing operations in Europe will see the already difficult situation exacerbated by infrastructure scarcity and inadequacy. Just consider the limited availability of large shovel-ready sites across North-Western Europe. Then there is the energy issue. Many countries’ electric grids have difficulty meeting current industrial demands, leading some to even suspend the venue of new manufacturing projects. In addition, few regions offer fully green energy. Worrisome, for companies that uphold the highest ESG standards.

Expect that developing a robust location strategy, more so than ever before, will require a long-term planning horizon, strong stakeholder onboarding and robust analysis. It need not be a hasty process – deglobalisation will not happen before year-end! But the time is now to start planning and positioning operations for a more regionalized world. Companies that will do so are the best-prepared for what is to come.

About the author

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This article represents the personal viewpoint of the author only.