

The Daily Dispatch

Weekly Special Feature

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Globalization Isn't Dead. But It's Changing.

By: Jon Hilsenrath and Anthony DeBarros (*Published on January 16, 2023 ET*)



Companies are shaking up international trade flows as they give growing weight to safety and try to avoid political tensions between economic powers.

JON KRAUSE

The future looked bright to all parties when Alphabet Inc.'s Google joined with Facebook Inc. and a Hong Kong partner in 2016 to build an 8,000-mile-long undersea fiber-optic-cable line connecting Los Angeles to Hong Kong on an information highway between superpowers.

But the project didn't go as planned. The Trump administration nixed the application for U.S. approval, citing security concerns. Then the tech giants went their own way, routing their pieces of the cable line to the Philippines and Taiwan without the Hong Kong connection.

The shifting path of the Pacific Light Cable Network is a metaphor for the current state of globalization. For decades, multinational companies sought out cheap, efficient supply chains to produce goods for global export, in

addition to access to growing young populations in developing countries to spur sales. They operated on the assumption that security and political tensions between countries wouldn't obstruct their operations. That led many of them to China.

These companies are still looking for cheap, efficient and young markets. But now they also want safety, which for many has meant diversification away from direct tension between the world's great economic powers.

Trade's Rise—and Decline

World trade as a share of world GDP estimates



Sources: Mariko Klasing and Petros Milionis, 'Quantifying the evolution of world trade, 1870-1949' (pre-1950 estimates); Penn World Tables (1950-2015); World Bank (after 2015)

In other words, global economic ties haven't ended; they are being rerouted, with widespread implications. The efficiencies lost mean higher costs for households and businesses, and profit-margin pressure for companies. In boardrooms, it means more attention needs to be paid to

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risk and a widening landscape of potential crises. For politicians, it will accentuate the struggle to balance economic growth and low inflation against the demand to defend national interest.

However, there are also opportunities. The U.S. energy sector is gaining market share as Europe shifts away from dependence on Russia. At the same time, Vietnam, Philippines, Mexico and others are gaining export business as multinationals diversify their supply networks.

“What we are witnessing is not a collapse of globalization. It is more a reshaping of it,” says Dani Rodrik, a Harvard University professor, whose 1997 book, “Has Globalization Gone Too Far?”, was among the first to warn of the risk of popular backlash against globalization.

By the numbers

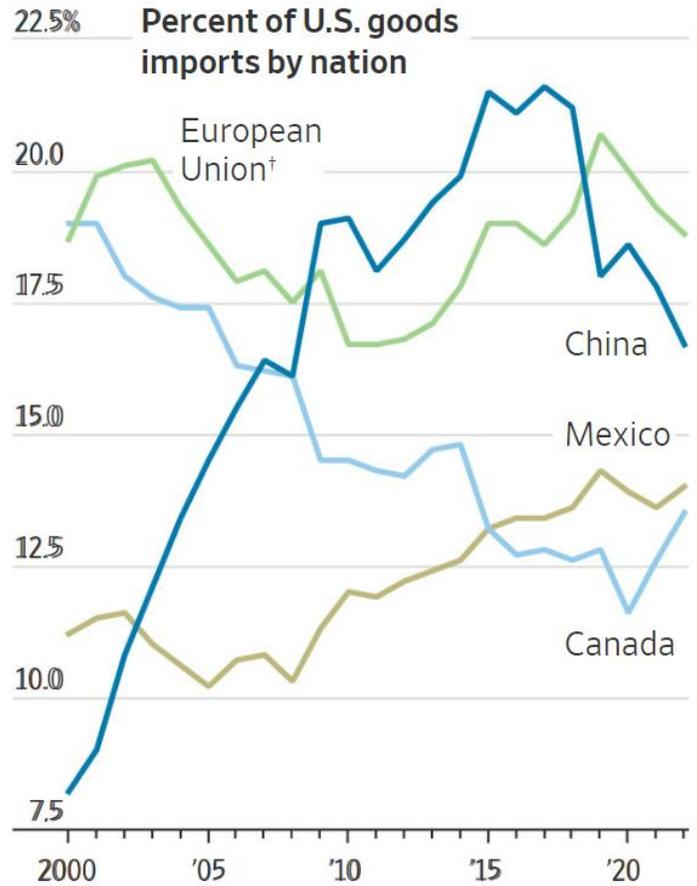
World trade as a share of overall economic activity peaked at 61% in 2008, at the apex of China’s power, when a global financial crisis that started in the U.S. caused a worldwide recession. Trade has since receded to 57% of economic activity, according to World Bank data, still far greater than estimates of 31% on average during the 1970s, 36% during the 1980s or 40% in the 1990s.



*2022 data through November
Source: Census Bureau

China Slide

Share of U.S. imports. Supply-chain shifts since the 2018 Trump tariffs and the Covid pandemic have cut into China’s numbers.*



*2022 data through November
†European Union reflects current members plus U.K.
Source: Census Bureau

Asian Growth

Vietnam, India and Taiwan are among Asian nations gaining share of goods imported to the U.S.*

- Vietnam
- South Korea
- India
- Taiwan
- Thailand
- Malaysia

Mr. Rodrik, for one, doesn’t expect to see global trade slump to anywhere near the approximately 10% of economic output that took place in the 1930s. Multinational companies have invested too much in global supply chains to allow them simply to disappear. The costs, in terms of

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inflation, lost productivity and lost profits, would be too great. Households, valuing access to inexpensive goods, have something at stake in the preservation of globalization, too. Moreover, global bonds are enabled by the inexorable advance of technology.

Instead, it's in the pathways of global trade where you already can see the biggest changes, hastened by the Trump administration's 2018 tariffs against Chinese imports, and then amplified by the Biden administration's efforts to block Chinese imports of advanced U.S. technology, China's self-imposed Covid-related business shutdowns, and Russia's invasion of Ukraine.

The result is that China's share of U.S. imports dropped from a peak of 22% in 2017 to less than 17% last year. Other Asian economies and Mexico are gaining share—most notably Vietnam, whose exports to the U.S. rose from less than \$10 billion before 2007 to more than \$120 billion in 2022. The Philippines, Taiwan, Thailand, India and Malaysia have also enjoyed rapid export growth to the U.S., while also increasing their exports to China.

Mexico's annual exports to the U.S. have roughly doubled since 2008 to more than \$400 billion, and they have increased to China, too. At the same time, China has picked up a growing share of trade from Russia, as Europe shifts away from engagement with its eastern neighbor, and China's exports to Southeast Asia are rising.



A Kuka Home furniture factory in Mexico, one of many Chinese investments in Mexico to get closer to the U.S. market and avoid tariffs.

PHOTO: MARIAN CARRASQUERO/BLOOMBERG NEWS

The pathways of finance are similarly shifting. U.S. cross-border loans peaked in 2011, flattened for several years and started growing again around 2016. Among the biggest recipients of increased U.S. lending are traditional allies in North America and Europe, including Canada, Mexico, France and Germany, evidence that old alliances are strengthening in a riskier world.

Southeast Asia is also gaining a growing share of U.S. foreign direct investment. China and Hong Kong accounted for 24% of all U.S. foreign direct investment into Asia in 2008, while Singapore accounted for 21%. By 2021, Singapore, a hub for investment in places such as Vietnam, Thailand and Malaysia, accounted for 38% of investment, while Hong Kong and China accounted for 26%.

A stressful landscape

The key question for business leaders, policy makers and workers is how to navigate a more costly and stress-inducing global landscape. Mr. Rodrik is skeptical that industrial policies to boost manufacturing in advanced economies will deliver many benefits to workers, because many of these economies are already service-oriented and unlikely to reverse that emphasis.

His bigger worry is that this new landscape is fraught with the potential for miscalculation, in which economic friction between countries leads to open conflict. The new globalization, he says, has already been weaponized by the use of tariffs, sanctions and export controls.

“The biggest threat is to peace and security,” he says. “That is my major concern.”

National-security concerns originally drove Google's planned Pacific Light Cable Network away from Hong Kong. Ted Osius, then a policy adviser at Google and former U.S. ambassador to Vietnam, remembers watching pro-democracy protests erupt in Hong Kong in 2019, and worrying about the risks of proceeding with billions of dollars of investment in a cable network there.

“No one knew what would happen to Hong Kong in the future,” he says.

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That year, the U.S. Justice Department, which leads the multiagency “Team Telecom” panel that reviews telecommunications matters, signaled its opposition to the project because of concerns over its Hong Kong partner, Pacific Light Data Communications Co., and the direct link to Hong Kong.

Google and Facebook, now called Meta Platforms Inc., were granted approval in late 2021 to land the cable in Taiwan and the Philippines. One new concern is whether Chinese tensions in Taiwan could jeopardize access to the cable there, too.

A spokeswoman for Google says the Taiwan node is licensed and operating and the firm is committed to its operations there. “Google’s systems are designed for security and reliability on a global scale,” she says. Meta’s line to Luzon, Philippines is also operating and it plans new lines through the Java Sea to Singapore, with an emphasis on diversification.

The Hong Kong piece is not operating. The share price of Dr. Peng Telecom & Media Group, the Beijing-based controlling shareholder of the Hong Kong partner, has dropped more than 90% since 2015. The company did not respond to a request for comment.



Employees head to work at a Samsung factory north of Hanoi. Vietnam has benefited from companies looking for alternatives to China.

PHOTO: STRINGER/REUTERS

Mr. Osius has since left Google to become chief executive of the US-ASEAN Business Council, a trade group that advocates for U.S. businesses in Southeast Asian countries

such as Vietnam, Cambodia, Thailand, Malaysia and Indonesia. He says business is booming as companies look to diversify.

“U.S. business had too many eggs in the China basket,” he says.

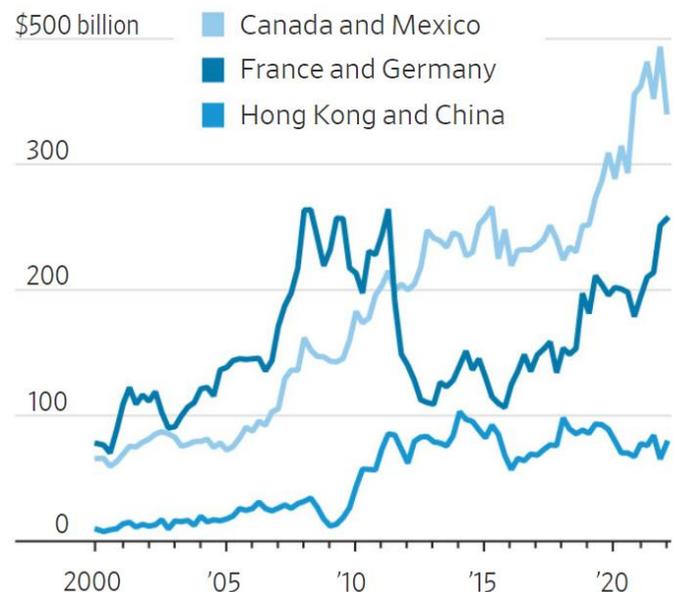
Vietnam gains

The biggest beneficiary in recent years has been another country under Communist Party rule: Vietnam. As in China, human-rights groups call out the Vietnamese government’s repression of speech, religion and association. Also like China a generation ago, Vietnam’s population of about 100 million people is young, growing, well-educated and motivated for economic advancement.

David Lewis, chief executive of Houston-based ECV Holdings, says the comparisons between China and Vietnam end there. Vietnamese leaders aim to be neutral in global politics, he says. Their focus is on growth, prosperity and inviting foreign direct investment.

Financial Shifts

Loans by U.S. banks to borrowers in selected nations show renewed strength of old alliances



Source: Bank for International Settlements

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“What you have in Vietnam is everything we wanted in China, minus ambitions for world dominance,” Mr. Lewis says.

His company seeks to build a power plant to fuel industrial parks around Ho Chi Minh City. The plant will be supplied largely by liquid natural gas imports from the U.S. Mr. Lewis says that Vietnam is restrained from tapping natural-gas reserves along the vast South China Sea coastline around it because of China’s claims to that area.

“Vietnam is not interested in picking fights,” he says.

More than 8,000 miles away, in Rosarito, Mexico, Chinese electronics and appliance manufacturer Hisense Group, has made its own bets to diversify, and still has its eyes on U.S. consumers. In 2015, it bought a TV-manufacturing plant from Sharp Corp. a few miles from San Diego. It automated production with state-of-the-art robotic equipment to make circuit boards with chips that work as the brains of smart TVs, invested in metal stamping and plastic injection, and brought in suppliers of packaging material and optical sheets.

Shipping finished televisions from Mexico to the U.S. cuts up to a month of travel time compared with moving that same unit from a Chinese factory, executives say. Hisense is now developing a “Home Appliance Industrial Park” in the northern Mexico city of Monterrey, investing \$260 million for the production of refrigerators, washing machines, air conditioners and kitchen appliances for tariff-free export to the U.S.

Shifting production

Japanese companies are getting into the global diversification game as well.

Matsuoka Corp. manufactures clothes on behalf of other brands, about 70% of which are for Fast Retailing Co.’s Uniqlo. In a business plan released in May 2022, the company said it intended to produce 71% of its output in Southeast Asia in the year ending March 2026, up from 50% in the year ended March 2022, largely by shifting production out of China.

As part of that plan, the company is investing 8.7 billion yen, equivalent to \$65 million, to build new factories in Bangladesh and Vietnam in the two years ending March 2023.

“China’s technical capabilities are high, but labor costs have risen, and it has become difficult to secure workers,” a spokeswoman says. “In Vietnam and Bangladesh, it’s easy to recruit workers.”

The spokeswoman, who asked not to be identified, says the company has also become more attuned to the risks of operating in China, mentioning Covid-related lockdowns last year as an example of such risk. Many clothing items are seasonal, and even short delays can hurt the bottom line. “The lockdowns stopped distribution, and our products couldn’t be delivered at the time when they were needed,” she says.

China accounted for 74% of Japan’s textile imports in 2012, a figure that fell to 58.7% in 2021, according to the Japan Textile Importers Association. While many Japanese companies are cutting back on their dependence on China, none indicated they plan to cut out China as a supplier altogether.

During Covid, many companies were focused mostly on survival. With Covid receding, the long run is now coming into focus, says Jake Siewert, head of political-risk oversight at Warburg Pincus, a U.S. investment firm, and former official in President Barack Obama’s White House.

Reglobalization, he says, is still in its early stages.

“These supply chains were built over 30 years or more,” he says. “The idea that they’re going to completely unravel overnight is crazy.”

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Source: Jon Hilsenrath and Anthony DeBarros (2023).
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Journal*. Available at:
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markets-trade-11673627929](https://www.wsj.com/articles/globalization-changing-markets-trade-11673627929)

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TODAY'S TOP NEWS

Globe to finish longest cable network in April

Globe said Thursday it is on track to completing the \$150-million Philippine Domestic Submarine Cable Network, the longest of its kind in the country, in April this year to further boost digitalization in the countryside.

DTI, P.J. Lhuillier team up to help SME's

The Department of Trade and Industry Regional Operations Group through the Negosyo Center Program Management Unit signed a partnership agreement with P.J. Lhuillier Inc. to further promote ease of doing business in the post-pandemic and digital age.

Tanduay enters Austrian market

Tanduay, a brand of rum produced by Lucio Tan's LT Group Inc., has partnered with Weisshaus, a leading distributor of international spirits, to bring the local brand to Austria. Andreas Osler, Weisshaus managing director, said the company sees Tanduay's "enormous potential" in the Austrian market.

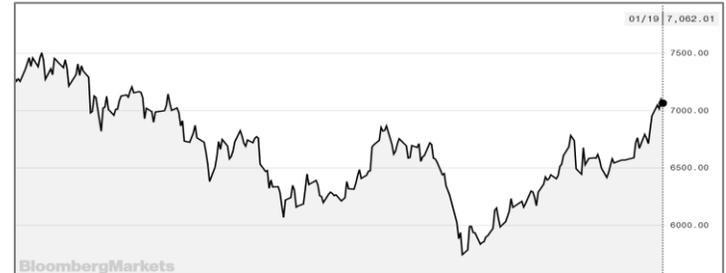
NSW govt to fund ACEN feasibility study

ACEN Australia, the platform representing ACEN Corp.'s renewable energy (RE) assets in Australia, received a big boost from the New South Wales (NSW) government for its 800megawatt (MW) Phoenix pump-hydro project.

'Multinational firms will invest in PHL'

Two multinational firms have pledged to invest in the Philippines during their meeting with President Ferdinand R. Marcos Jr. on the sidelines of the ongoing 2023 World Economic Forum (WEF) in Davos, Switzerland.

Philippine Stock Market Update



Previous Close:

7,062.01

Open:

7,056.43

52-Week Range:

5,699.30 - 7,552.20

1 Yr Return:

-0.49%

YTD Return:

7.19%

Source:

Bloomberg

Foreign Exchange

As of January 19, 2023

US Dollar	Philippine Peso
1	54.69

BVAL Reference Rates

As of January 19, 2023

Tenor	Rate
1Y	5.457
3Y	5.843
5Y	6.021
7Y	6.122
10Y	6.254
20Y	6.593

Daily Quote

"I believe every human has a finite number of heartbeats. I don't intend to waste any of mine."

– Neil Armstrong

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MORE LOCAL NEWS

Macay Holdings buys RC Cola firm for \$21.4 million

Macay Holdings, Inc. has completed the acquisition of RC Global Beverages, Inc. (RCGBI) after it fulfilled the closing conditions in the two parties' share purchase agreement, the listed firm said on Wednesday. The company purchased one share representing 100% voting and controlling interest of RCGBI for \$21.4 million in cash.

CATS sees local EV market to further grow

Luxury vehicle distributor CATS Group of Companies is optimistic about the growth of electric vehicles (EVs) in the country. "I think in certain [EV] segments, the market is very ripe. In the past year, we've been hearing a lot of demand from our own customers and we will react to that demand," CATS COO Francis C. Ang said.

A Brown to invest in agricultural company

A Brown Co., Inc., said on Wednesday that its board of directors authorized the firm to invest in Surigao Greens Agri Corp. (SGAC), which is in the process of incorporation. In a stock market disclosure, the company said that SGAC will be its subsidiary.

BSP to pilot test wholesale digital currency

The Bangko Sentral ng Pilipinas' (BSP) pilot project that tests the use of wholesale central bank digital currency (CBDC) among selected financial institutions will run until 2024, an official said on Wednesday. The BSP last year launched the CBDCPh project to better understand the opportunities and risks of wholesale CBDC.

BTr limits tap facility bids to one per dealer

Eligible dealers of government securities can now submit just one bid for the Bureau of the Treasury's (BTr) tap facility offers. The BTr said in a Jan. 11 memorandum addressed to government securities eligible dealers (GSED) that only one bid or placement for its tap facility offerings will be allowed per GSED-market maker.

BOP deficit swells to \$7.3 billion in 2022

The country's balance of payments (BOP) deficit swelled to a record-high \$7.3-bn in 2022, as the elevated global commodity prices further widened the gap between imports and exports. Bangko Sentral ng Pilipinas (BSP) data showed that the full-year 2022 BOP deficit of \$7.26-bn was a sharp reversal from 2021's \$1.35-bn surplus.

PH, critical for global semiconductors

US-based Semiconductor Industry Association (SIA) recognizes the Philippines as a critical player in the global semiconductor industry and a major hub for semiconductor assembly and test manufacturing. SIA recently shared investment prospects and business opportunities for the Philippines with the passage of USA's CHIPS Act.

DA to review rubber, cacao, coffee industries

On top of advancing the durian industry, Department of Agriculture (DA) Senior Undersecretary Domingo Panganiban plans to revive projects he started in the Bureau of Plant Industry (BPI) such as those in rubber, cacao, coffee and banana sectors.

Euronet to expand presence in Philippines

US-based Euronet Worldwide Inc. is expected to more than double its footprint in the Philippines as it expands its partnership with Ayala-led Bank of the Philippine Islands. Euronet, an American provider of global electronic payment services, said it is expanding its ATM network in Southeast Asia, including the Philippines.

DHL Express invests P250 million for new facility

International express service provider DHL Express is spending P254-mn for the relocation of its Ortigas Center facility to a larger venue to further improve its services to meet the demands of its customers. DHL said the new facility with a lot area of 4,768 square meters is located at the Good Harvest Complex.

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TODAY'S TOP ASIAN NEWS

Resonac prepares for billion-dollar chip deals

Resonac Holdings is ready to spend hundreds of billions of yen on chip acquisitions, as the 84-year-old chemicals giant seeks to boost its role as a pivotal supplier to global giants like Taiwan Semiconductor Manufacturing (TSMC) and Samsung Electronics.

Staff shortages dent HK air hub reboot hopes

Regional airlines are struggling to ramp up flights to Hong Kong because of staff shortages at the airport, slowing the city's plan to recapture its travel hub status, industry insiders have told AFP. Around 20 Asian airlines have been unable to boost services to HK despite months of negotiations with ground handling services.

Logistics start-up Locad raises US\$11 million

Singapore-based logistics start-up Locad has raised US\$11 million and plans to more than double its headcount here from 11 to about 30 by the end of 2023. The series A fundraising round was led by Reefknot Investments, a joint venture between Singapore's investment company Temasek and logistics company Kuehne + Nagel.

Chinese chip giant weighs IPOs and land sales

Tsinghua Unigroup's new owners are exploring ways to stave off creditors after completing a US\$9 billion takeover, including industrial property sales and floating fast-growing business units such as a local rival to Qualcomm.

NetEase rejected game licence extension offer

NetEase has turned down an offer from Blizzard to extend their China licensing agreement by six months, setting the stage for the withdrawal of global titles like World Of Warcraft from the top gaming market. The potential extension, under the existing terms, was an option included in the two companies' most recent deal in 2019.

TODAY'S TOP GLOBAL NEWS

Carmaker Stellantis strikes deal w/ Terrafame

CARMAKER Stellantis and Finnish company Terrafame announced on Wednesday (Jan 18) that they had struck a deal whereby Terrafame will supply Stellantis with nickel sulphate over a five-year period, starting from 2025 onwards.

Gold ticks up, investors weigh Fed slowdown

GOLD prices inched higher in early Asian trade on Thursday (Jan 19) as investors weighed chances of the US Federal Reserve slowing its pace of interest rate hikes. Spot gold was up 0.2 per cent at US\$1,907.18 per ounce, as of 0028 GMT. US gold futures rose 0.1 per cent to US\$1,909.40.

Oil eases; recession worries offset recovery hope

OIL prices fell about 1 per cent on Wednesday, surrendering early gains as worries about a possible US recession outweighed optimism that China's lifting of Covid-19 curbs will fuel demand for crude in the world's top oil importer.

Goldman Sachs lags rivals as profit plunges

Goldman Sachs, long the most envied firm on Wall Street, has stumbled into the new year. Goldman said that it made significantly less money in the fourth quarter of 2022 than analysts expected — US\$1.3 billion, down nearly 70 per cent from the same period a year earlier, a steeper fall than its rivals.

Temasek, Toyota back biotech firm Living Carbon

Singapore's investment company Temasek has led the latest funding round for climate tech firm Living Carbon, which aims to increase the carbon-absorbing ability of trees. The biotech's US\$21 million Series A round was also backed by the world's biggest automaker Toyota and venture firms Lowercarbon Capital and Felicis Ventures.