What has happened to Globalization? Structural reshaping, GVC resilience, future Prospects

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Globalization in Trouble

Wounded by 3 nasty body-blows in just a dozen of years:

- The financial crash of 2008-2009
- The Sino-American trade war more recently
- COVID-19 pandemic lockdowns sealing borders and disrupting commerce

Several *epochs of integration*, but the trading system emerging in the 1990s went further than ever before. China became the world's factory. Borders opened to people, goods, capital and information.

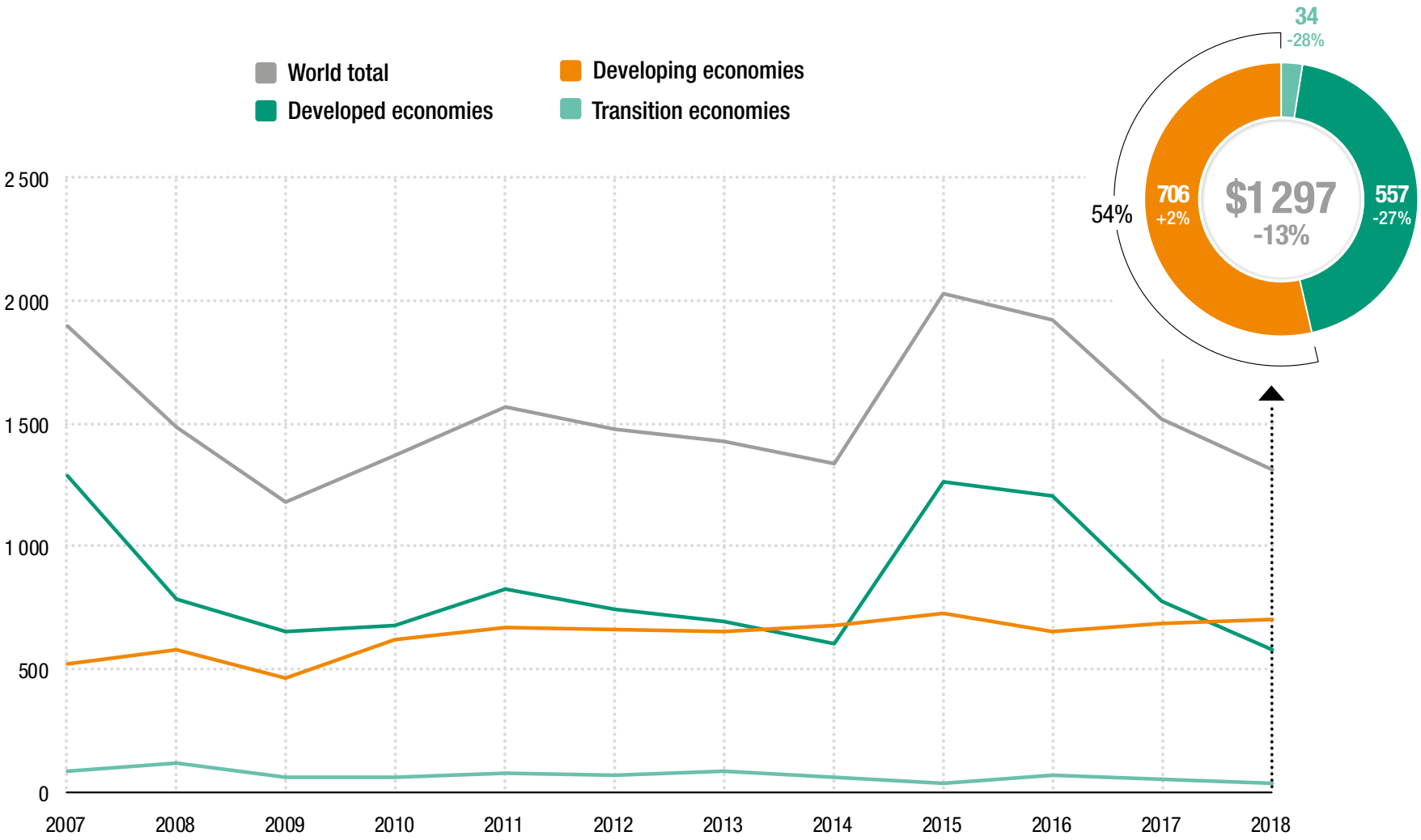
Sadly, *global governance* has been lacking. The underlying anarchy of the system is currently being exposed.

Is this just a start?

Foreign Direct Investment

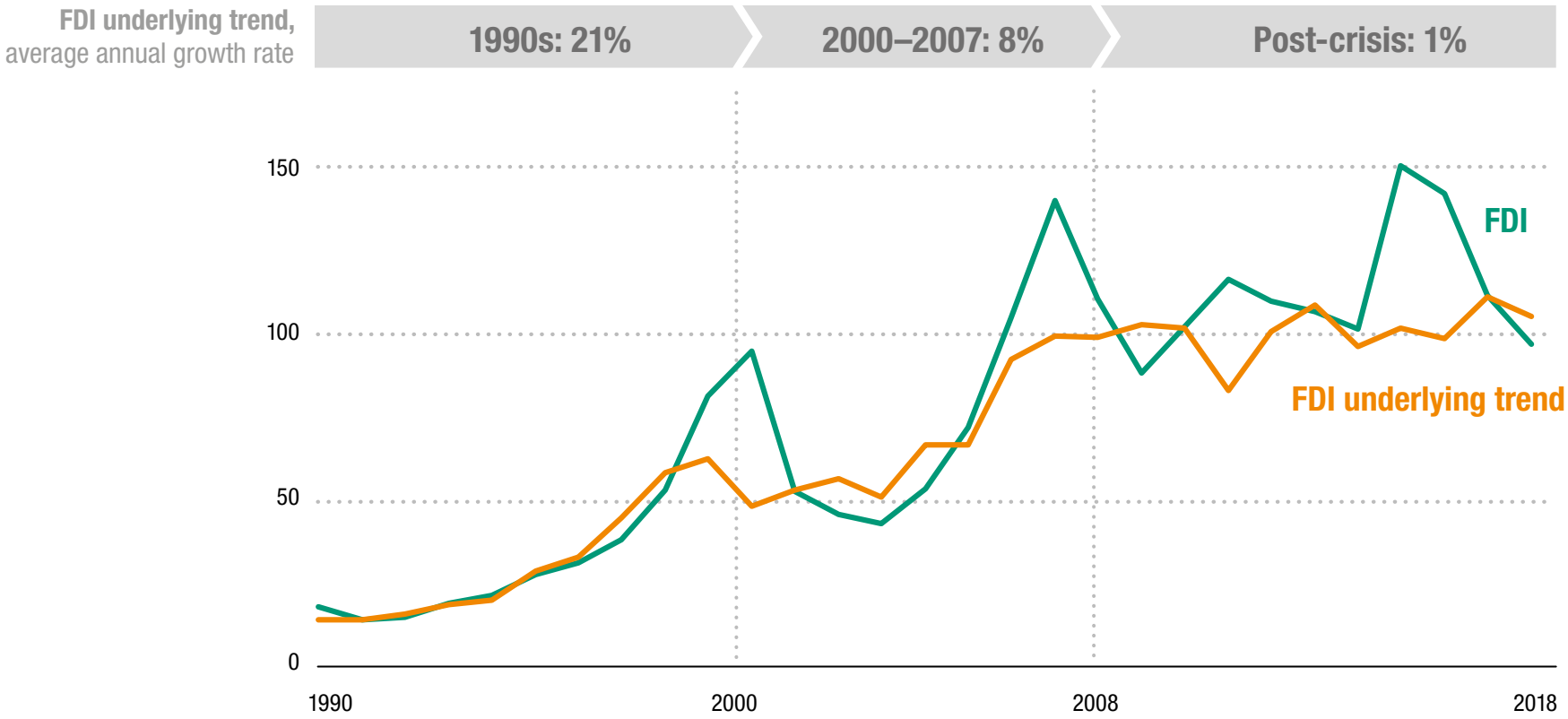
(UNCTAD WIR 2020)

Figure I.1. **FDI inflows, global and by economic group, 2007–2018** (Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure I.11. **FDI inflows and the underlying trend, 1990–2018** (Indexed, 2010 = 100)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics); UNCTAD estimates.

Note: The FDI underlying trend is a composite index (incorporating balance of payments and other variables), constructed by removing the effect on FDI of fluctuations in M&As, intracompany loans and offshore financial flows through appropriate smoothing techniques.

Global Investment Trends

- Declining global FDI in 2018

Global foreign direct investment (FDI) flows declined by 13% to $1.3tr. This was the 3rd consecutive drop in a raw. Reflecting repatriations of capital by US MNEs due to tax legislation passed in late 2017. Still, cross-border M&As increased by 18% to $816b. And greenfield investments by 41% to $981b.

- Developing countries accounted for a growing share of global FDI

FDI flows declined sharply in developed countries and economies in transition while those to developing countries remained stable, rising by 2%. As a result, developing economies accounted for a growing share of global FDI, at 54%, from 46% in 2017.

Figure I.6. **FDI inflows, by region, 2018 and 2019**
(Billions of dollars and per cent)

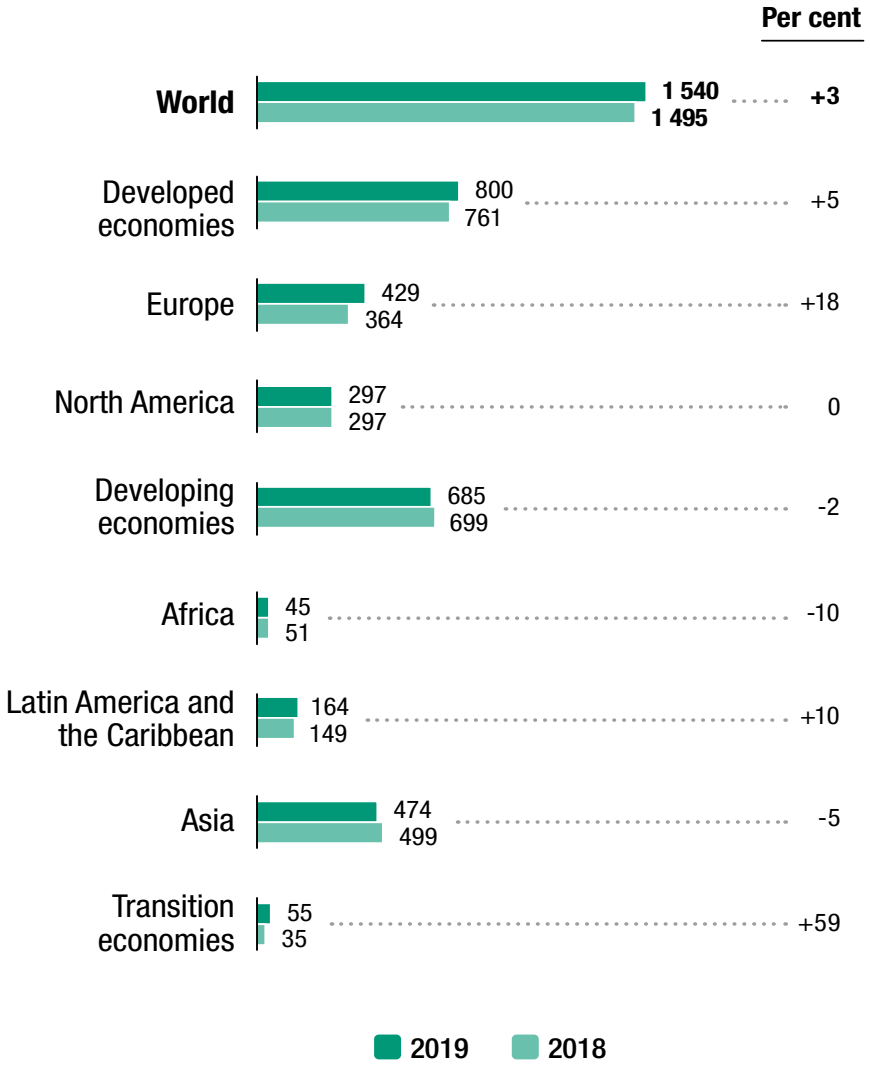


Figure I.7. **FDI inflows, top 20 host economies, 2018 and 2019** (Billions of dollars)

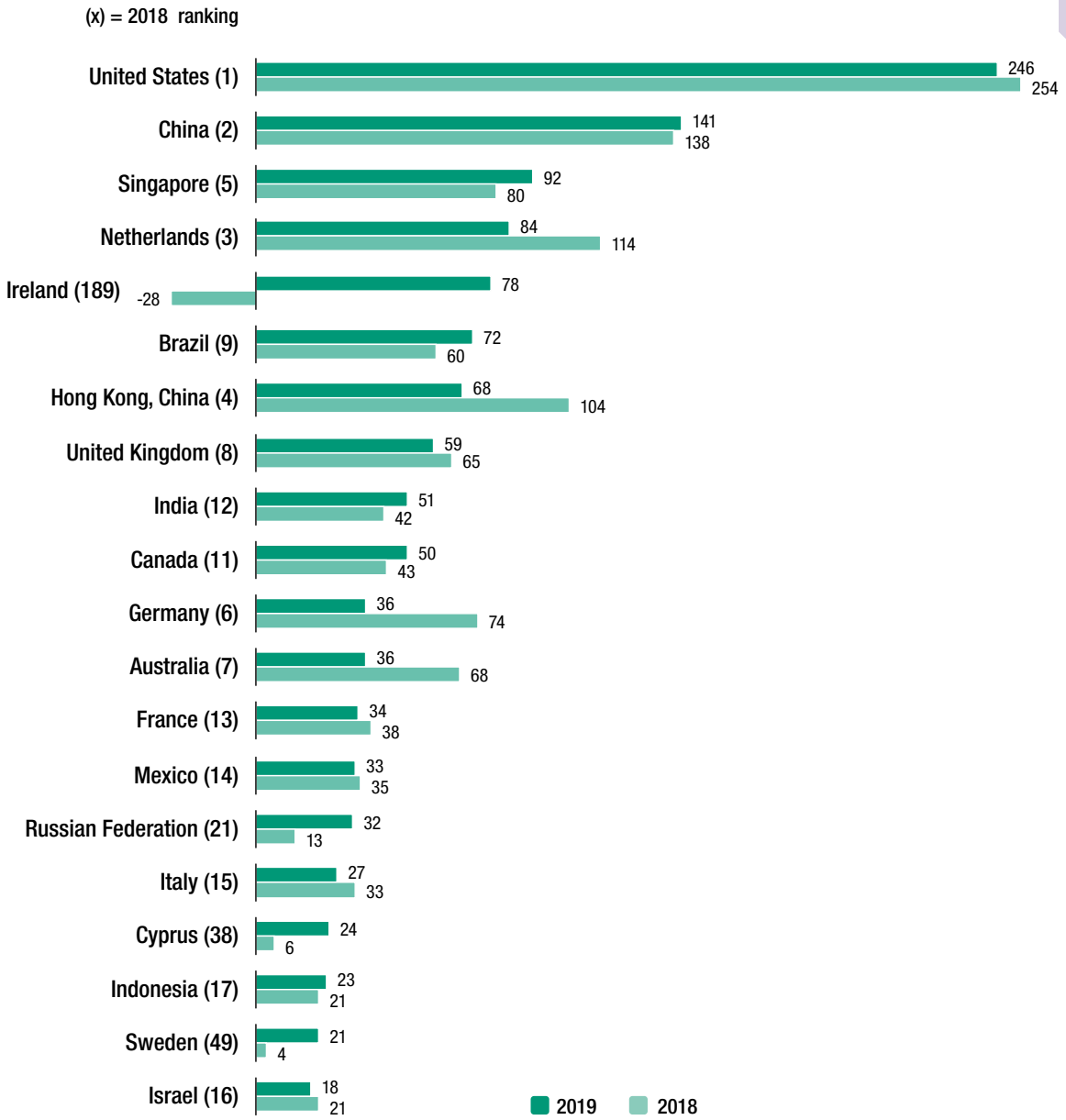


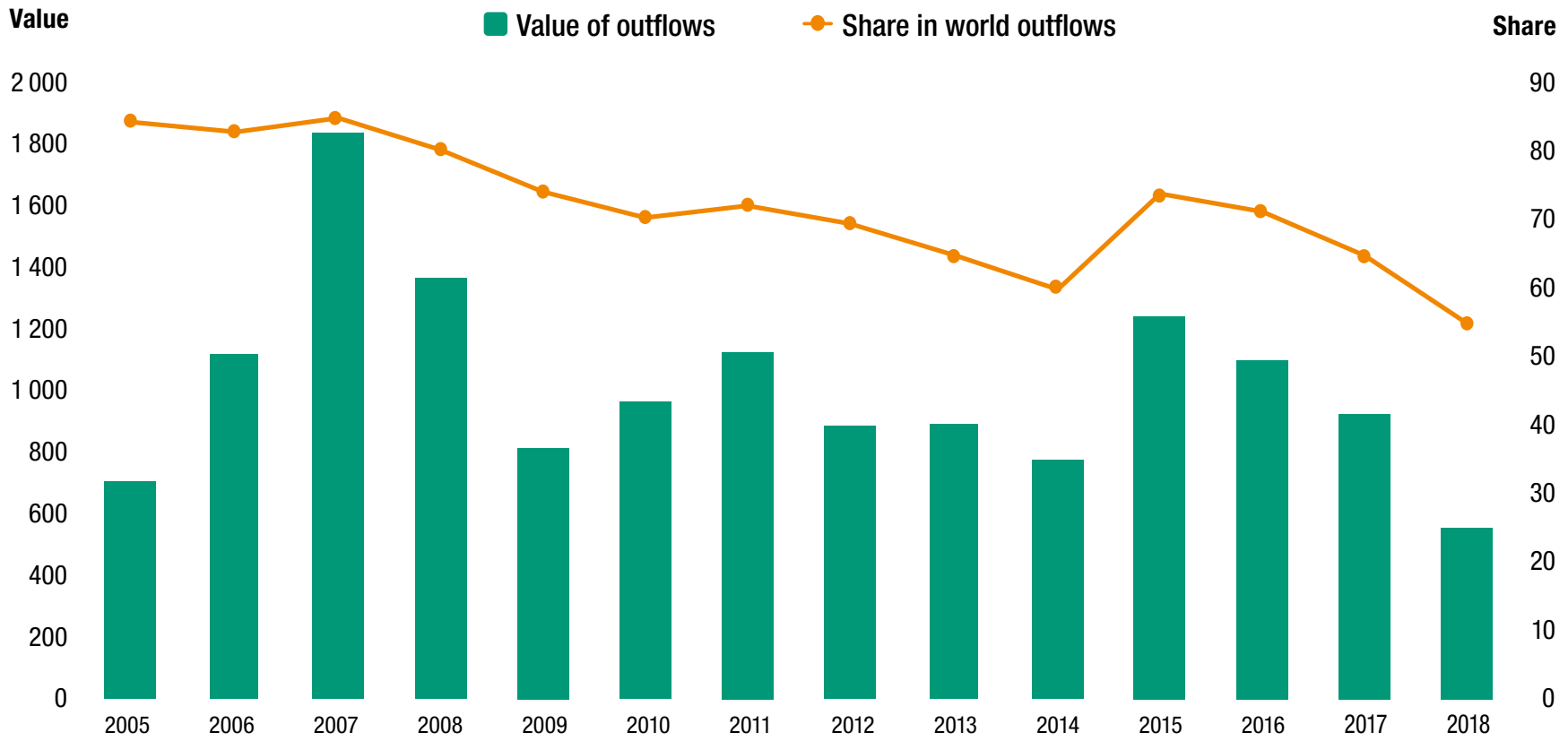
Table I.3. FDI inflows and projections, by group of economies and region, 2017–2019, and forecast 2020 (Billions of dollars and per cent)

Group of economies/region	2017	2018	2019	Projections 2020
World	**1 700**	**1 495**	**1 540**	**920 to 1 080**
Developed economies	**950**	**761**	**800**	**480 to 600**
Europe	570	364	429	240 to 300
North America	304	297	297	190 to 240
Developing economies	**701**	**699**	**685**	**380 to 480**
Africa	42	51	45	25 to 35
Asia	502	499	474	260 to 330
Latin America and the Caribbean	156	149	164	70 to 100
Transition economies	**50**	**35**	**55**	**30 to 40**
Memorandum: annual growth rate (per cent)				
World	**-14**	**-12**	**3**	**(-40 to -30)**
Developed economies	**-25**	**-20**	**5**	**(-40 to -25)**
Europe	-16	-36	18	(-45 to -30)
North America	-40	-2	0	(-35 to -20)
Developing economies	**7**	**0**	**-2**	**(-45 to -30)**
Africa	-10	22	-10	(-40 to -25)
Asia	7	-1	-5	(-45 to -30)
Latin America and the Caribbean	14	-5	10	(-55 to -40)
Transition economies	**-25**	**-31**	**59**	**(-45 to -30)**

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Note: Projections are based on UNCTAD's forecasting model (box I.1) and expert judgement. Numbers are rounded.

Figure I.5. Developed economies: FDI outflows, and share in world outflows, 2005–2018

(Billions of dollars and per cent)



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure I.9. FDI outflows, top 20 home economies, 2018 and 2019 (Billions of dollars)

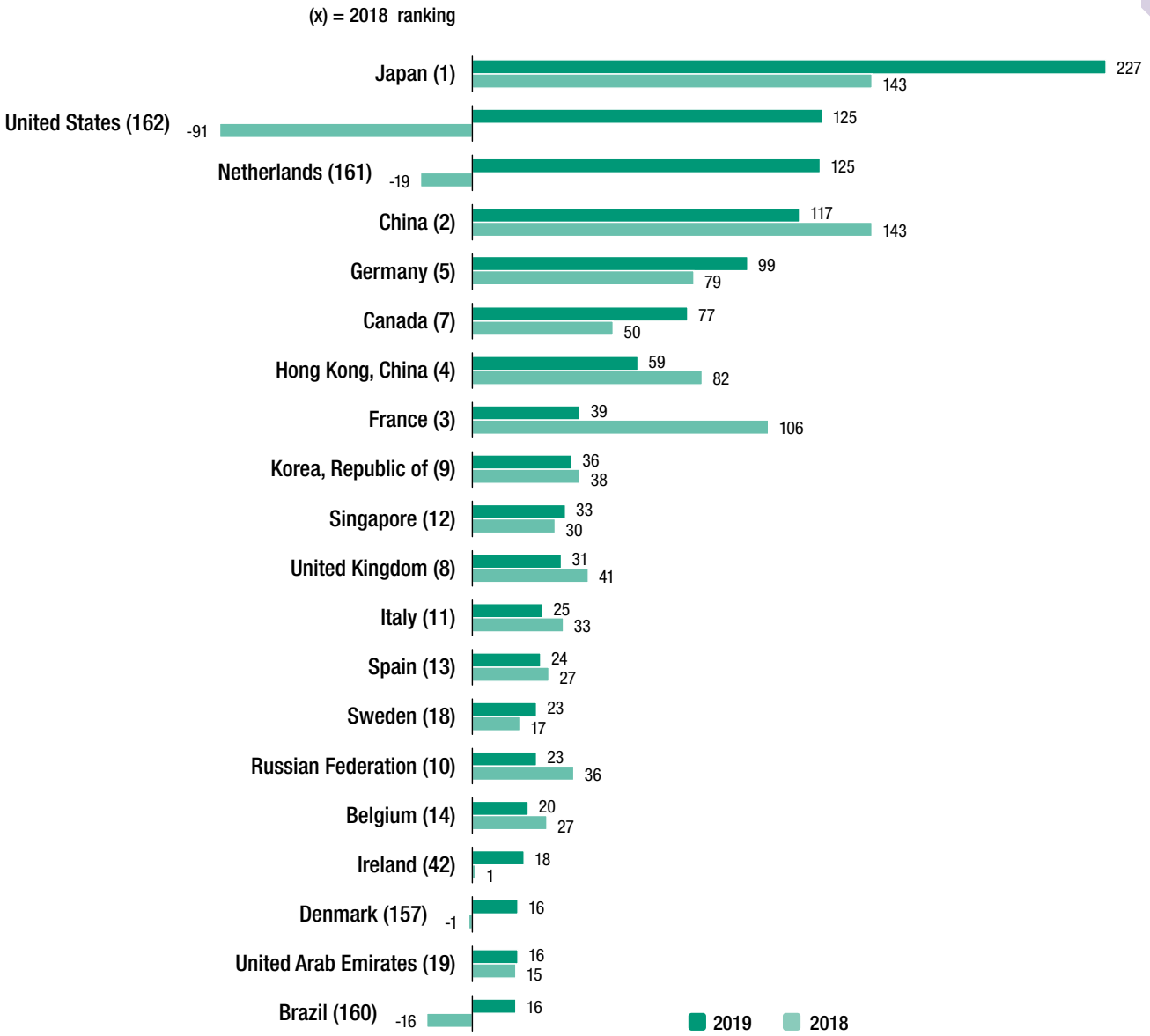
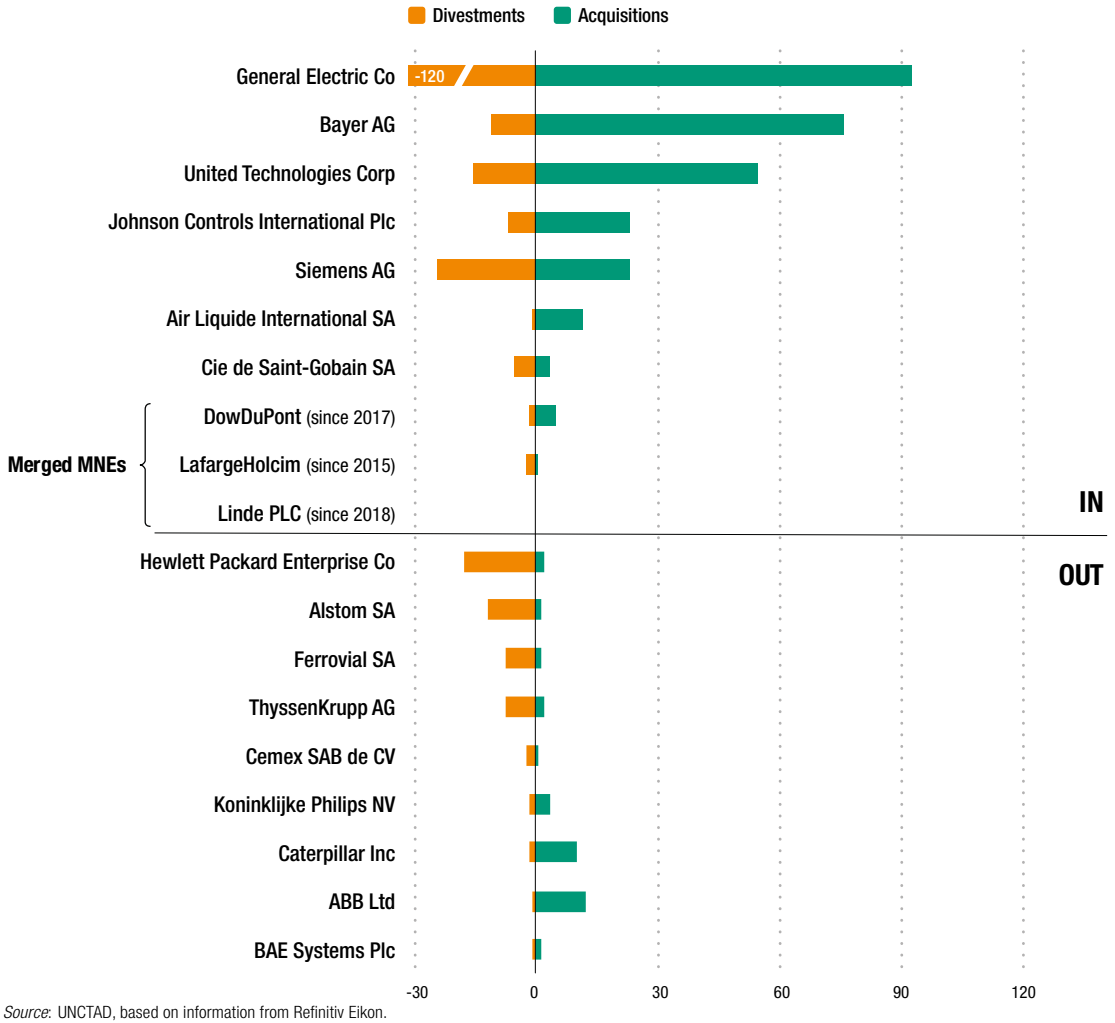


Table I.7. Selected indicators of FDI and international production, 2019 and selected years

Item	Value at current prices ($ billions) 1990	2005–2007 (pre-crisis average)	2017	2018	2019
FDI inflows	205	1 414	1 700	1 495	1 540
FDI outflows	244	1 452	1 601	986	1 314
FDI inward stock	2 196	14 484	33 218	32 944	36 470
FDI outward stock	2 255	15 196	33 041	31 508	34 571
Income on inward FDI[a]	82	1 027	1 747	1 946	1 953
Rate of return on inward FDI[b]	*5.3*	*9.0*	*6.8*	*7.0*	*6.7*
Income on outward FDI[a]	128	1 102	1 711	1 872	1 841
Rate of return on outward FDI[b]	*8.3*	*9.6*	*6.2*	*6.4*	*6.2*
Cross-border M&As	98	729	694	816	483
Sales of foreign affiliates	6 929	24 610	29 844	30 690[c]	31 288[c]
Value added (product) of foreign affiliates	1 297	5 308	7 086	7 365[c]	8 000[c]
Total assets of foreign affiliates	6 022	55 267	101 249	104 367[c]	112 111[c]
Employment by foreign affiliates (thousands)	27 729	58 838	77 543	80 028[c]	82 360[c]
Memorandum					
GDP[d]	23 522	52 428	80 606	85 583	87 127
Gross fixed capital formation[d]	5 793	12 456	20 087	21 659	21 992
Royalties and licence fee receipts	31	172	369	397	391

Source: UNCTAD.

Figure I.16. **Top industrial MNEs' total divestments and investments (foreign and domestic), cumulative 2010–2018** (Billions of dollars)



Source: UNCTAD, based on information from Refinitiv Eikon.

Note: The figure lists non-automotive industrial firms in the 2010 ranking of the global top 100 MNEs. Firms above the line are still in the 2019 ranking. In 2010, in place of the three merged companies there were either one company (Dow Chemical, Linde AG) or two (Lafarge and Holcim). Caterpillar Inc (United States) and ABB Ltd (Switzerland) exited the ranking despite acquisitions as these were either domestic or not large enough to stay above the threshold level of foreign assets for the top 100 list.

Table I.8. Top 20 R&D investors from the top 100 MNEs (global and developing and transition economies), by expenditure, 2018 (Billions of dollars, R&D intensity)

Ranking	Company	Country	Industry	R&D expenditures ($ billion)	R&D intensity
1	Amazon.com, Inc	United States	Tech	28.8	12.4
2	Alphabet Inc	United States	Tech	21.4	15.7
3	Samsung Electronics Co, Ltd	Korea, Rep. of	Tech	16.5	7.5
4	Huawei Technologies	China	Tech	15.3	14.1
5	Microsoft Corp	United States	Tech	14.7	13.3
6	Apple Inc	United States	Tech	14.2	5.4
7	Intel Corp	United States	Tech	13.5	19.1
8	Roche Holding AG	Switzerland	Pharmaceuticals	12.3	20.3
9	Johnson & Johnson	United States	Pharmaceuticals	10.8	13.2
10	Toyota Motor Corp[a]	Japan	Automotive	10.0	3.6
11	Volkswagen AG	Germany	Automotive	9.6	3.4
12	Novartis AG	Switzerland	Pharmaceuticals	9.1	16.5
13	Robert Bosch GmbH	Germany	Automotive	8.7	9.2
14	Ford Motor Co	United States	Automotive	8.2	5.1
15	Pfizer Inc	United States	Pharmaceuticals	8.0	14.9
16	General Motors Co	United States	Automotive	7.8	5.3
17	Daimler AG	Germany	Automotive	7.5	3.9
18	Honda Motor Co Ltd	Japan	Automotive	7.3	5.1
19	Sanofi	France	Pharmaceuticals	6.7	16.0
20	Siemens AG	Germany	Industrial	6.4	6.7

Source: UNCTAD, based on information from Refinitiv Eikon and Orbis.

[a] 2017 data.

Table I.9. Top 15 R&D investors among the top 100 MNEs from developing and transition economies, 2017 (Millions of dollars, R&D intensity)

Ranking	Company	Country	Industry	R&D expenditures	R&D intensity
1	Huawei	China	Tech	15 300	14.1
2	United Microelectronics Corp	Taiwan Province of China	Tech	424	8.5
3	Samsung Electronics Co, Ltd	Korea, Rep. of	Tech	16 451	7.5
4	Tencent Holdings Ltd	China	Tech	3 465	7.3
5	China Mobile Ltd	China	Telecom	6 421	5.9
6	SK Hynix Inc	Korea, Rep. of	Tech	2 047	5.6
7	Cheng Shin Rubber Industry Co, Ltd	Taiwan Province of China	Industrial	173	4.8
8	Advanced Semiconductor Engineering Inc	Taiwan Province of China	Tech	394	4.0
9	Midea Group Co Ltd	China	Tech	1 218	3.1
10	Lenovo Group Ltd	China	Tech	1 274	2.8
11	Qingdao Haier Co Ltd	China	Industrial	739	2.7
12	Oil and Natural Gas Corp Ltd	India	Extractives	1 236	2.2
13	POU Chen Corp	Taiwan Province of China	Industrial	203	2.1
14	China Communications Construction Co Ltd	China	Construction	1 457	2.0
15	Wistron Corp	Taiwan Province of China	Tech	469	1.6

Source: UNCTAD, based on information from Refinitiv Eikon and Orbis.

Table I.10. SO-MNEs in the UNCTAD ranking of the top 100 MNEs, 2017 and 2019

Ranking in *WIR19*	Ranking in *WIR17*	Company	Home economy	Industry
6	(6)	Volkswagen Group	Germany	Motor vehicles
18	(18)	Enel SpA	Italy	Electricity, gas and water
28	(27)	Deutsche Telekom AG	Germany	Telecommunication
30	(33)	EDF SA	France	Electricity, gas and water
32	(23)	Eni SpA	Italy	Petroleum refining and related industries
40	(81)	China COSCO Shipping Corp Ltd	China	Transport and storage
42	(54)	Nippon Telegraph & Telephone Corp	Japan	Telecommunication
50	(46)	Airbus SE	France	Aircraft
51	(37)	Engie	France	Electricity, gas and water
52	(52)	Orange SA	France	Telecommunication
56	(44)	China National Offshore Oil Corp (CNOOC)	China	Mining, quarrying and petroleum
59	(55)	Equinor ASA	Norway	Petroleum refining and related industries
62	(..)	State Grid Corp of China	China	Electricity, gas and water
67	(..)	China National Chemical Corp (ChemChina)	China	Chemicals and allied products
69	(68)	Renault SA	France	Motor vehicles
97	(..)	China Minmetals Corp (CMC)	China	Metals and metal products

Source: UNCTAD.

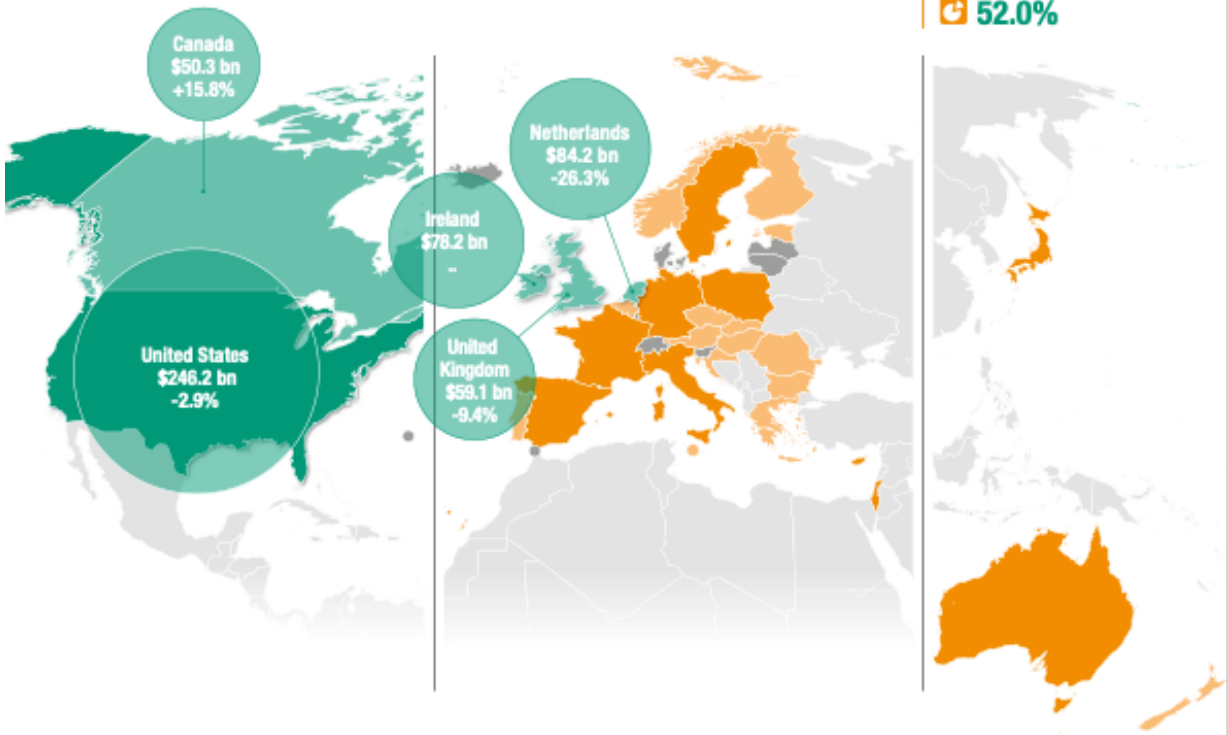
DEVELOPED ECONOMIES

FDI flows, top 5 host economies, 2019 (Value and change)

2019 Inflows
$ 800.2 bn

2019 Increase
+5.1%

Share in world
52.0%



Flows, by range

- Above $100 bn
- $50 to $99 bn
- $10 to $49 bn
- $1 to $9 bn
- Below $1 bn

Top 5 host economies

Economy
$ Value of inflows
2019 % change

Outflows: top 5 home economies

(Billions of dollars and 2019 growth)

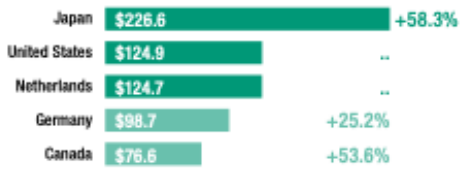
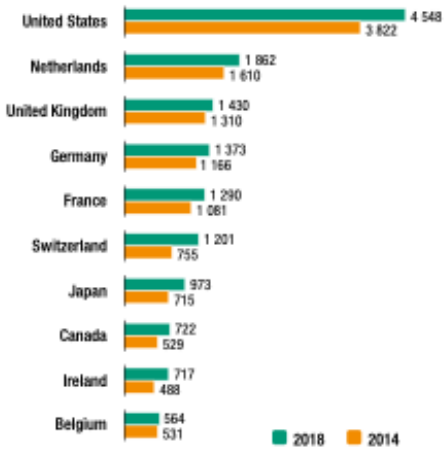


Figure A. Top 10 investor economies by FDI stock, 2014 and 2018 (Billions of dollars)



Source: UNCTAD.

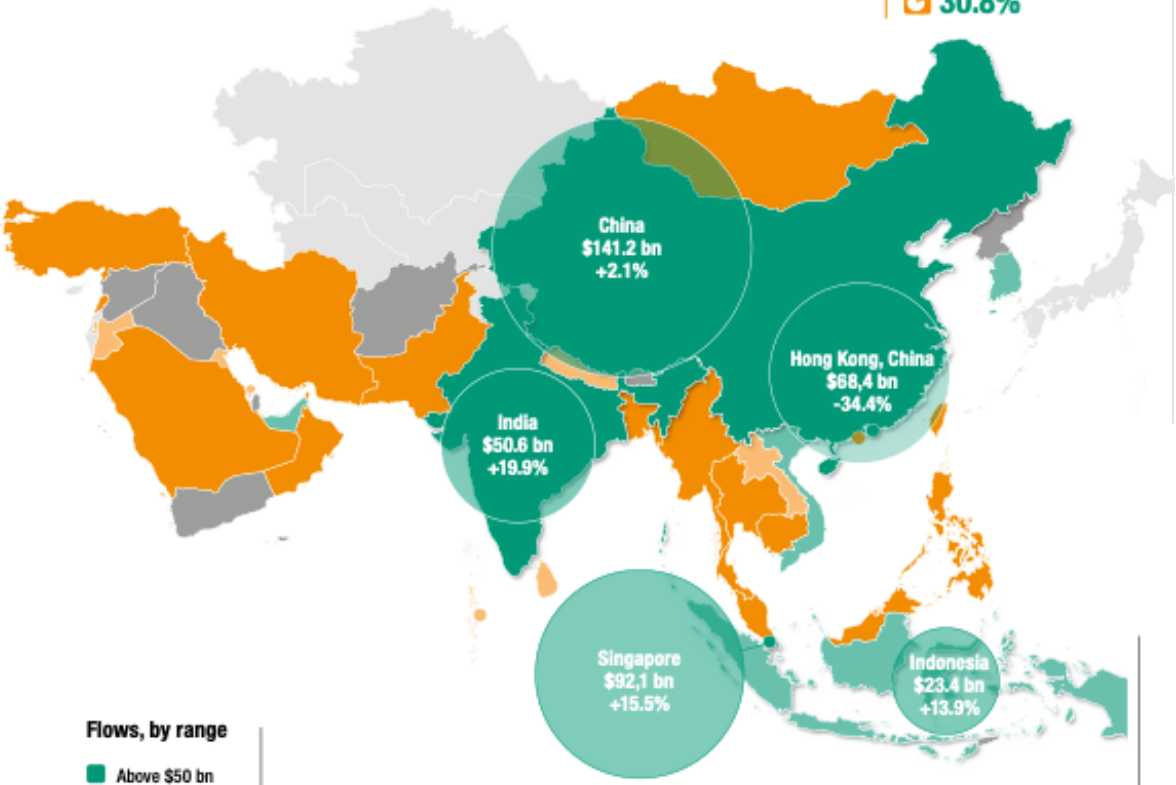
DEVELOPING ASIA

FDI flows, top 5 host economies, 2019 (Value and change)

2019 Inflows
473.9 bn

2019 Decrease
-4.9%

Share in world
30.8%



Flows, by range

- Above $50 bn
- $10 to $49 bn
- $1.0 to $9.9 bn
- $0.1 to $0.9 bn
- Below $0.1 bn

Top 5 host economies

Economy
$ Value of inflows
2019 % change

Outflows: top 5 home economies

(Billions of dollars and 2019 growth)

China	$117.1	-18.1%
Hong Kong, China	$59.3	-27.9%
Korea, Republic of	$35.5	-7.0%
Singapore	$33.3	+11.8%
United Arab Emirates	$15.9	+5.4%

Figure A. **Top 10 investor economies by FDI stock, 2014 and 2018** (Billions of dollars)

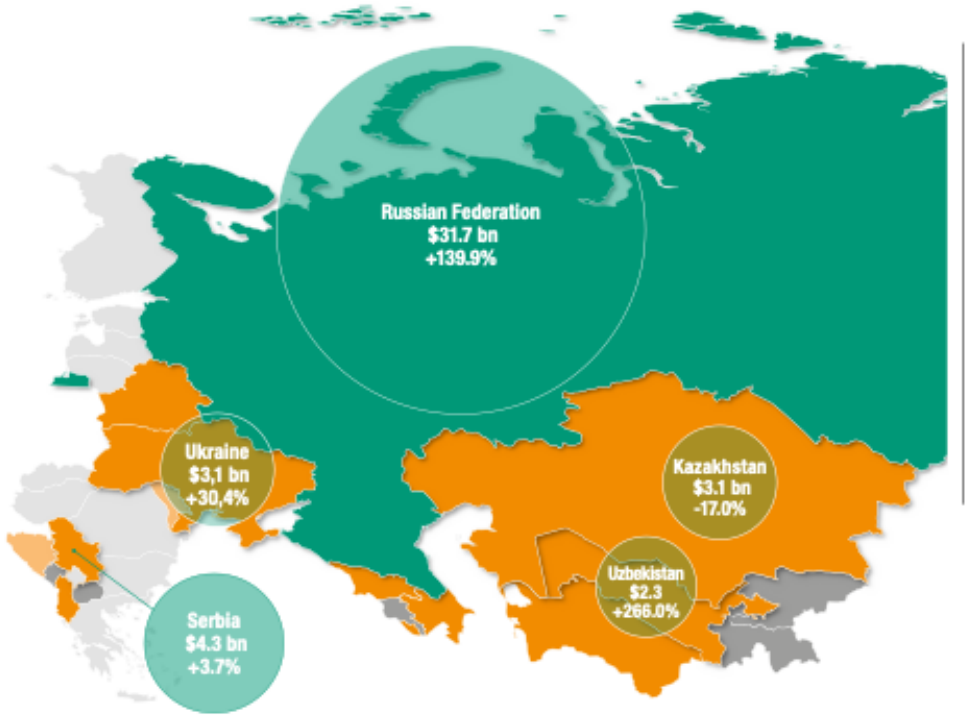
TRANSITION ECONOMIES

FDI flows, top 5 host economies, 2019 (Value and change)

2019 inflows
$ 54.9 bn

2019 increase
+59.1%

Share in world
3.6%



Flows, by range

- Above $10.0 bn
- $5.0 to $9.9 bn
- $1.0 to $4.9 bn
- $0.5 to $0.9 bn
- Below $0.5 bn

Top 5 host economies

Economy
$ Value of inflows
2019 % change

Outflows: top 5 home economies

(Billions of dollars and 2019 growth)

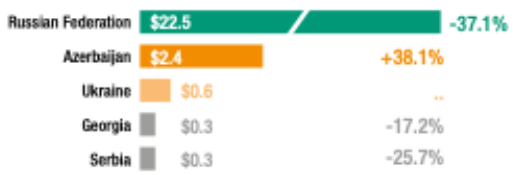
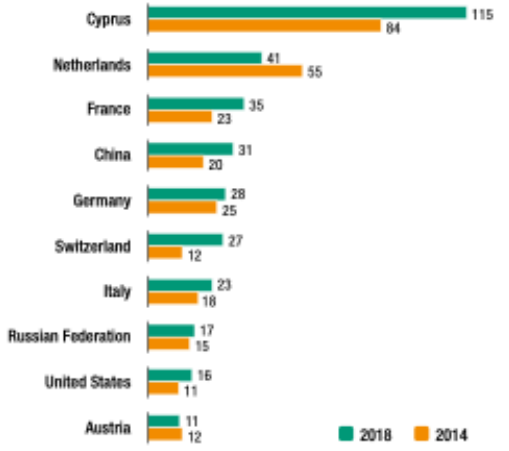


Figure A. Top 10 investor economies by FDI stock, 2014 and 2018 (Billions of dollars)



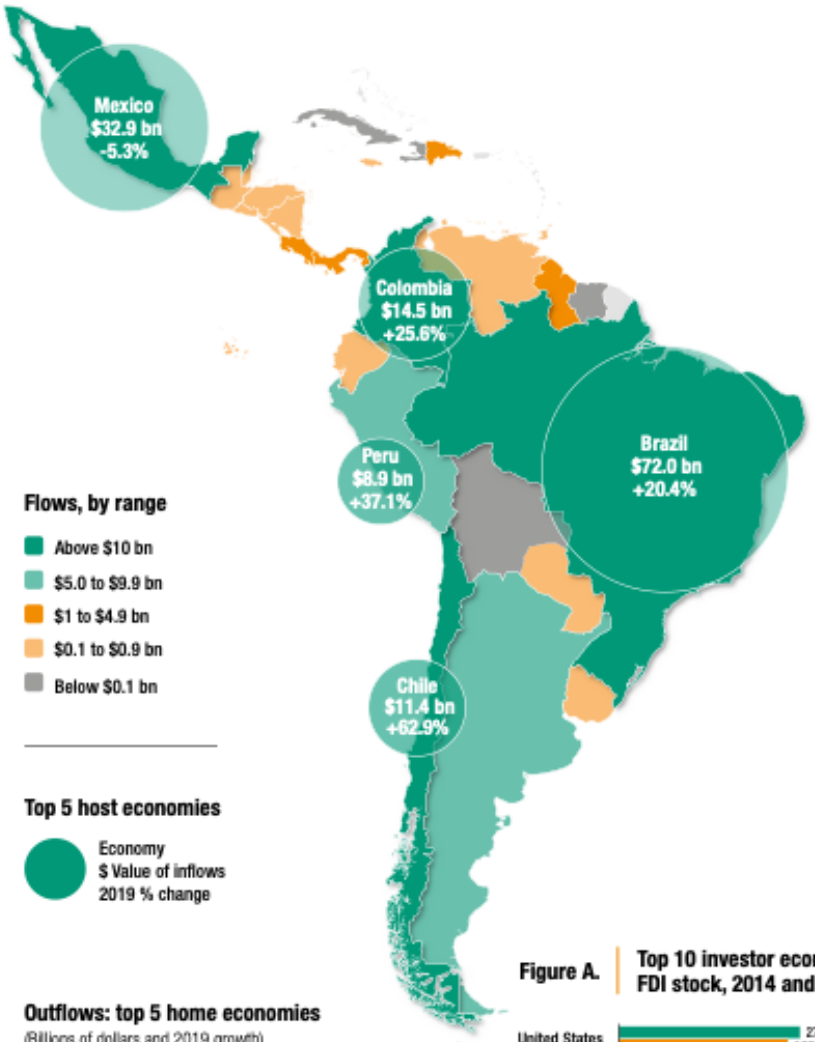
LATIN AMERICA AND THE CARIBBEAN

FDI flows, top 5 host economies, 2019 (Value and change)

2019 Inflows
$ 164.2 bn

2019 Increase
+10.3%

Share in world
10.7%



Flows, by range

- Above $10 bn
- $5.0 to $9.9 bn
- $1 to $4.9 bn
- $0.1 to $0.9 bn
- Below $0.1 bn

Top 5 host economies

Economy
$ Value of inflows
2019 % change

Outflows: top 5 home economies
(Billions of dollars and 2019 growth)

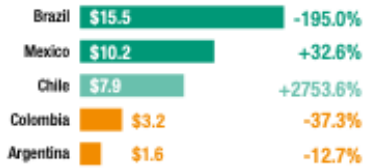
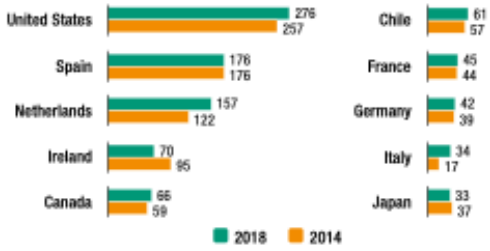


Figure A. **Top 10 investor economies by FDI stock, 2014 and 2018** (Billions of dollars)



DEVELOPING ECONOMIES

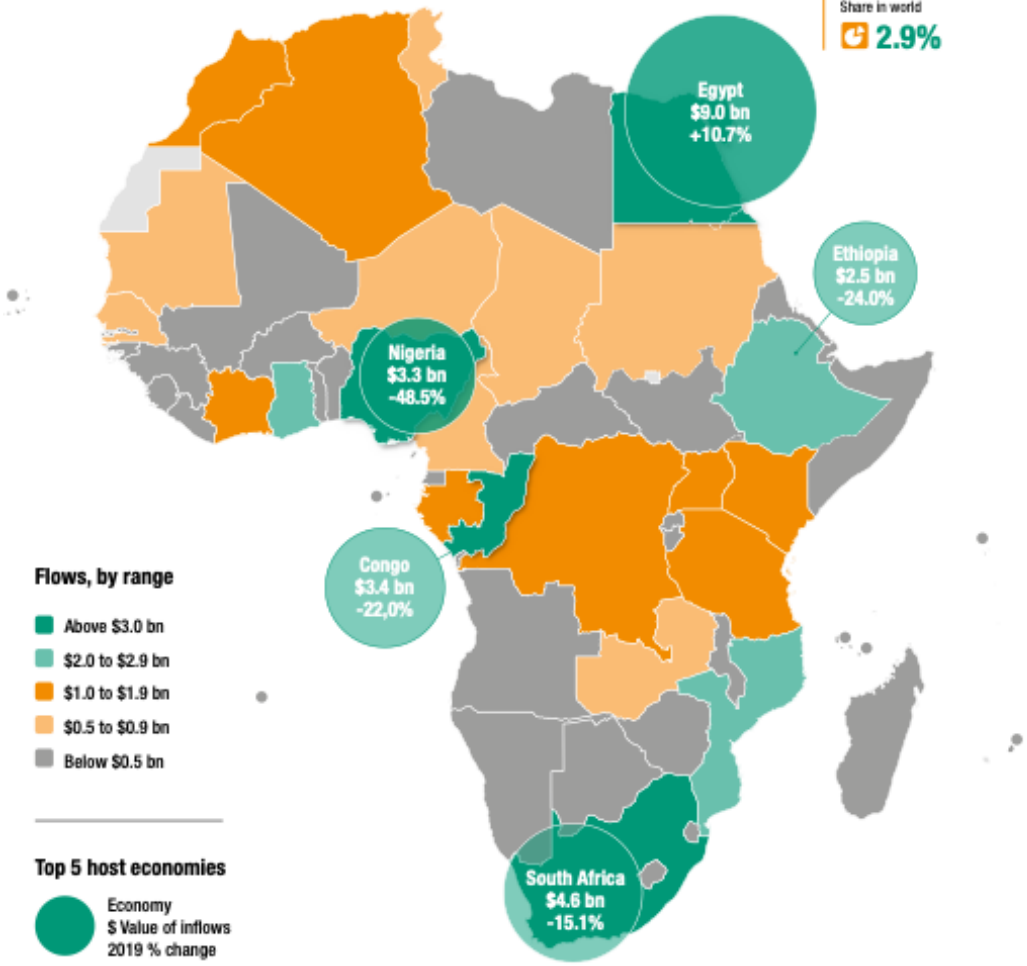
AFRICA

FDI flows, top 5 host economies, 2019 (Value and change)

2019 Inflows
$ 45.4 bn

2019 Decrease
-10.3%

Share in world
2.9%



Flows, by range

- Above $3.0 bn
- $2.0 to $2.9 bn
- $1.0 to $1.9 bn
- $0.5 to $0.9 bn
- Below $0.5 bn

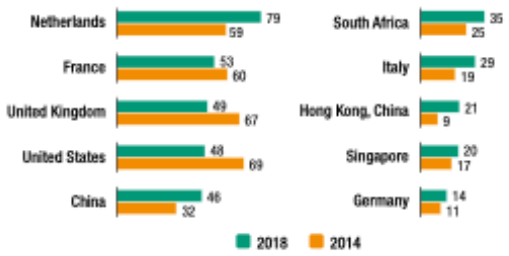
Top 5 host economies

Economy
$ Value of inflows
2019 % change

Outflows: top 5 home economies
(Billions of dollars and 2019 growth)

South Africa	$3.1	-23.5%
Morocco	$1.0	+32.1%
Togo	$0.7	+863.8%
Egypt	$0.4	+25.2%
Côte d'Ivoire	$0.4	+172.6%

Figure A. **Top 10 investor economies by FDI stock, 2014 and 2018** (Billions of dollars)



Source: UNCTAD.

Global Investment Prospects

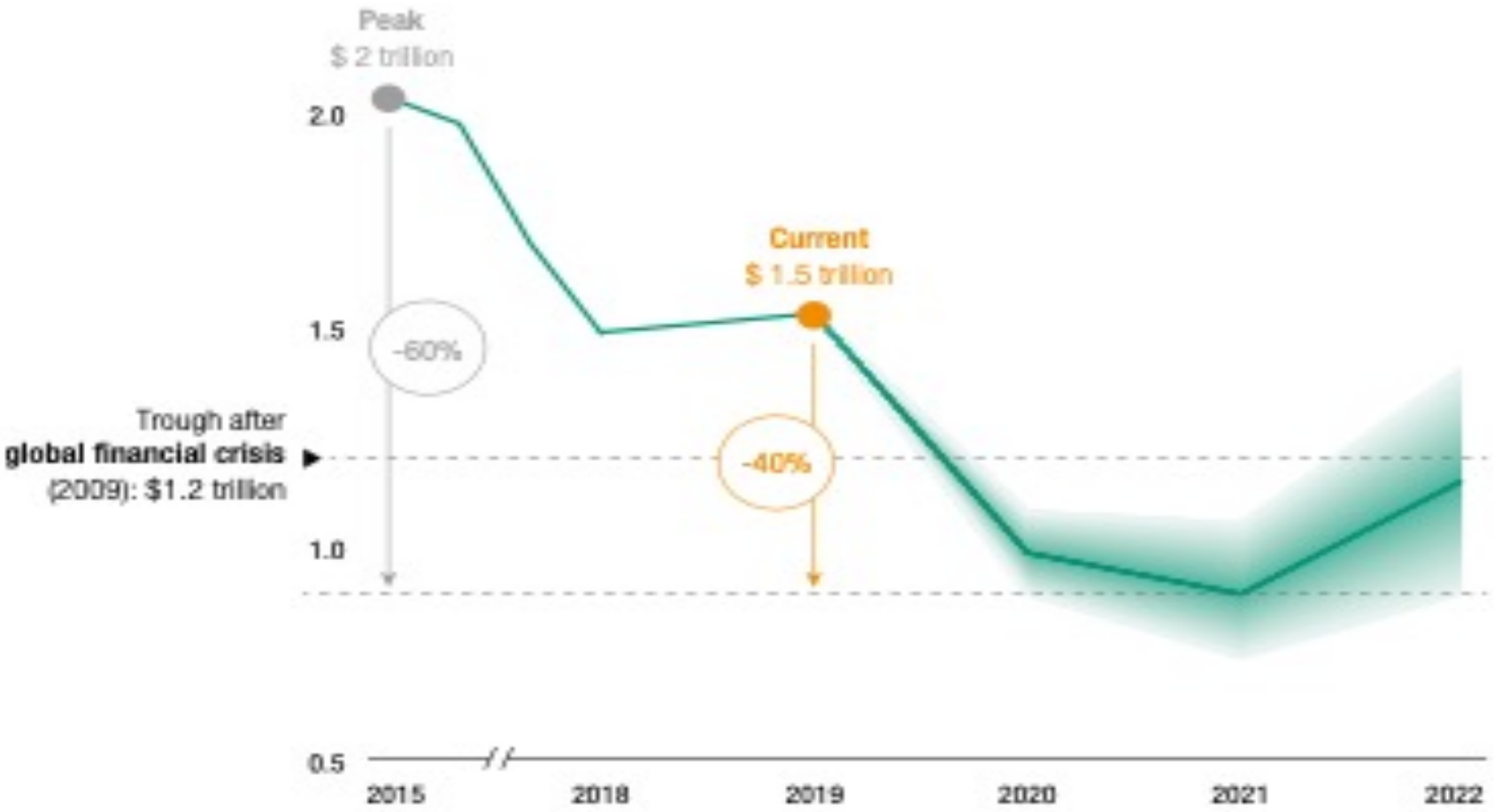
- Dramatic fall in FDI expected in 2020 due to COVID-19

Global FDI flows are forecast to decrease by up to 40% in 2020, from their 2019 value of $1.54 trillion. This would bring FDI below $1 trillion for the first time since 2005. FDI is projected to decrease by a further 5-10% in 2021 and to initiate a recovery in 2022. A rebound in 2022, with FDI reverting to the pre-pandemic underlying trend, is possible, but only at the upper bound of expectations.

- Highly uncertain outlook

Prospects depend on the *duration of the health crisis* and on the effectiveness of policy interventions to mitigate the economic effects of the pandemic. *Geopolitical and financial risks* and continuing *trade tensions* add to the uncertainty.

Figure I.1. **Global FDI inflows, 2015–2019 and 2020–2022 forecast**
(Trillions of dollars)



Source: UNCTAD.

Global Investment Prospects

- International production grew rapidly during the 1990s and 2000s and stagnated in the 2010s. Flows of cross-border investment in physical productive assets stopped growing in the 2010s, the growth of trade slowed down, and GVC trade declined.

- The 2010s were only the quiet before the storm…. The crisis caused by the COVID-19 pandemic arrived on top of existing challenges arising from:
  - the new industrial revolution (I4.0),
  - growing economic nationalism, and
  - the sustainability imperative.

- *The decade to 2030 may be known as the decade of transformation for the system of international production.*

International Production Determinants

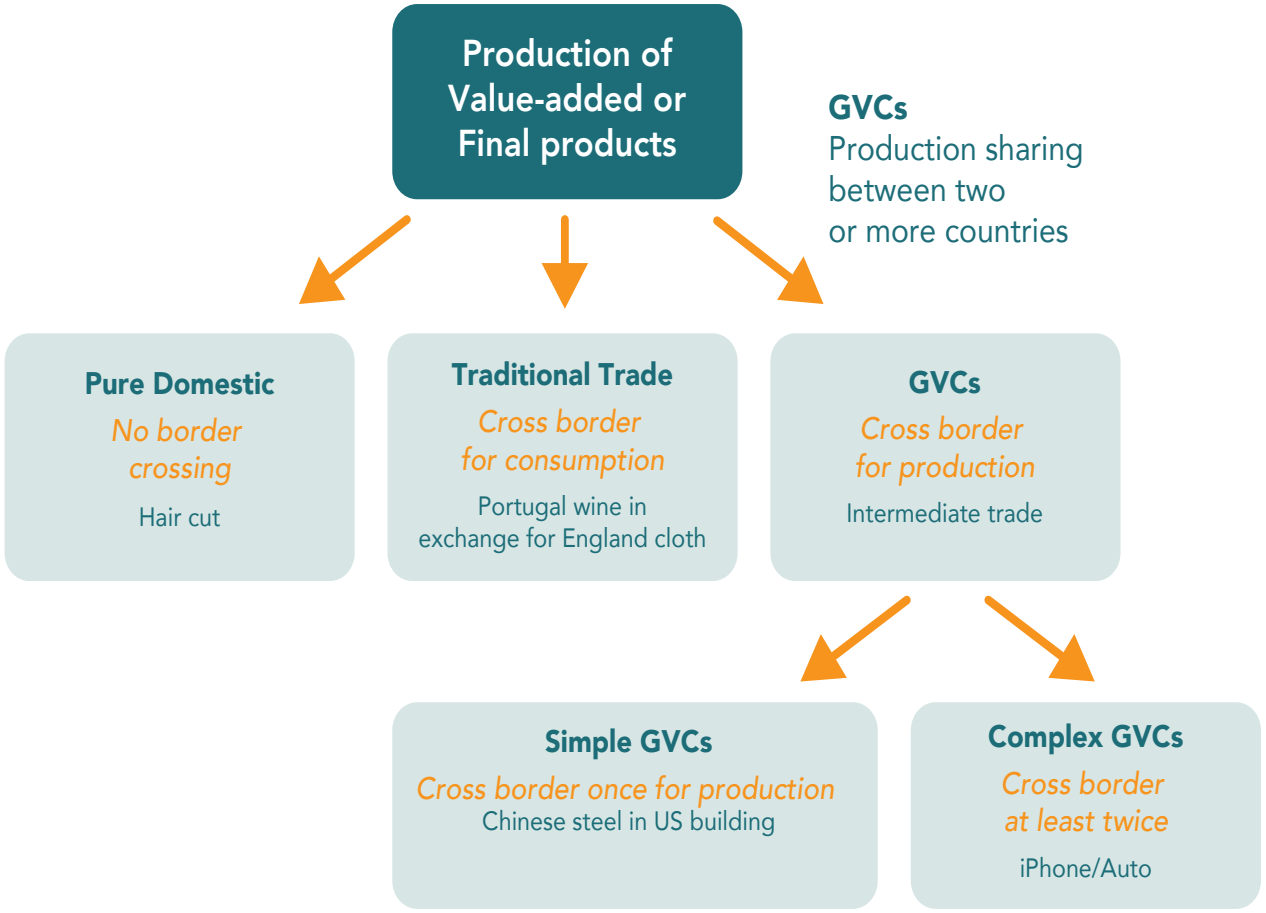
- Three key dimensions of international production:
  - the degree of fragmentation and the length of value chains
  - the geographical spread of value added
  - the governance choices of MNEs

- Three key technology trends will shape international production:
  - Robotics-enabled automation
  - Enhanced supply chain digitalization
  - Additive manufacturing

Global Value Chains

(World Bank - WDR 2020)

FIGURE 1.1 Decomposition of production activities[1]



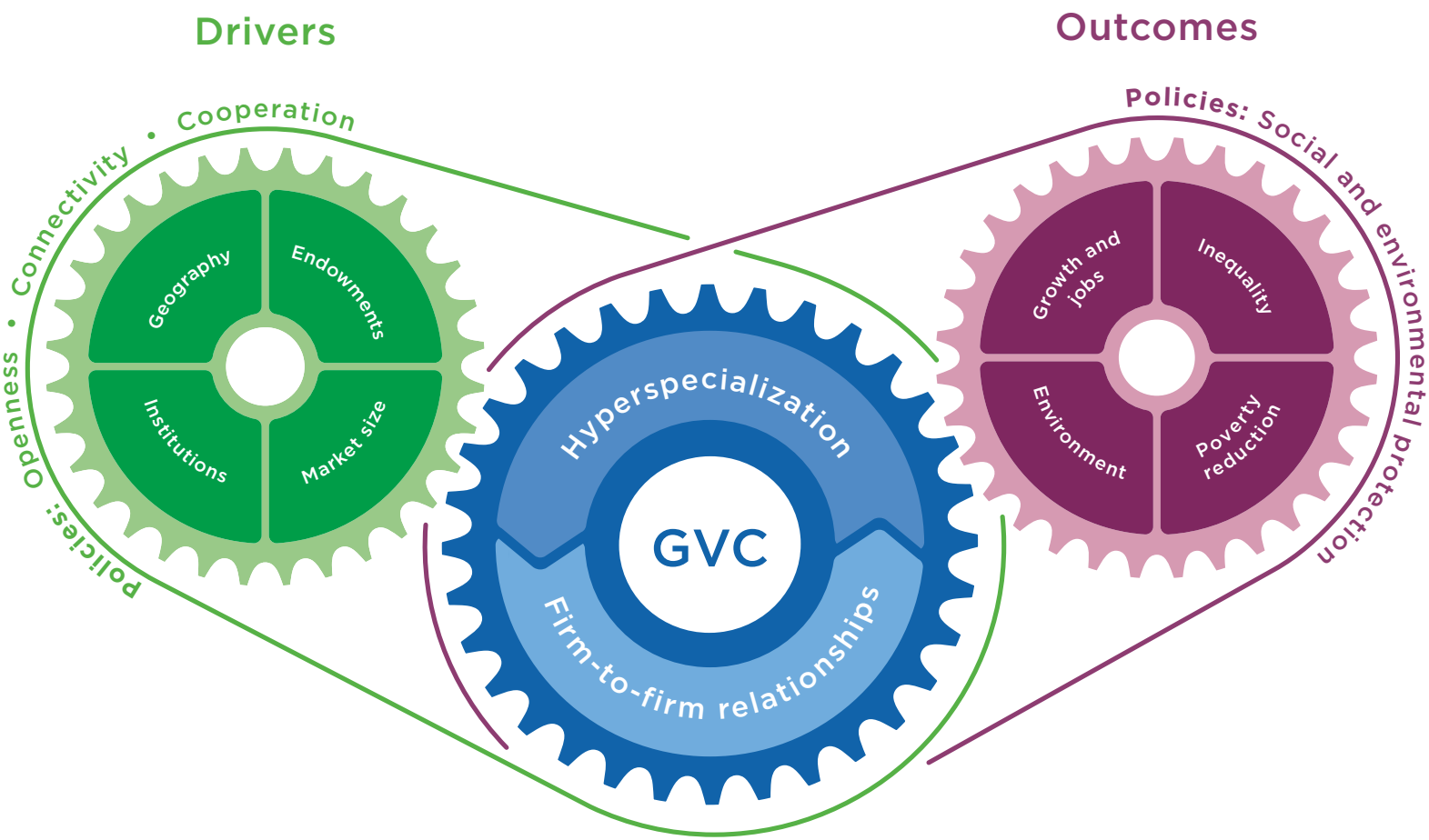
What is a global value chain (GVC)?

A global value chain breaks up the production process across countries. Firms specialize in a specific task and do not produce the whole product.

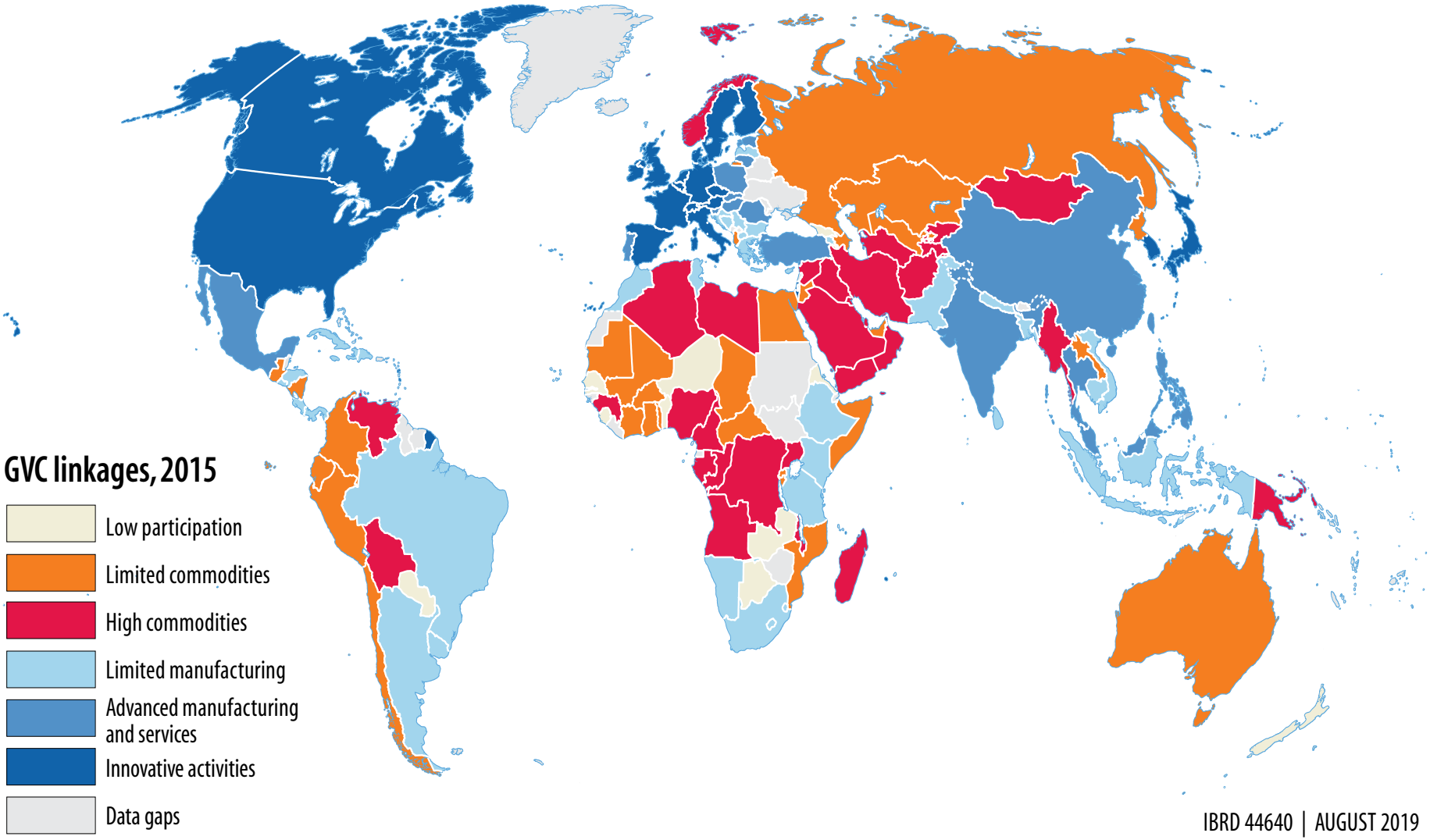
How do GVCs work?

Interactions between firms typically involve durable relationships.

Economic fundamentals drive countries' participation in GVCs. But policies matter—to enhance participation and broaden benefits.



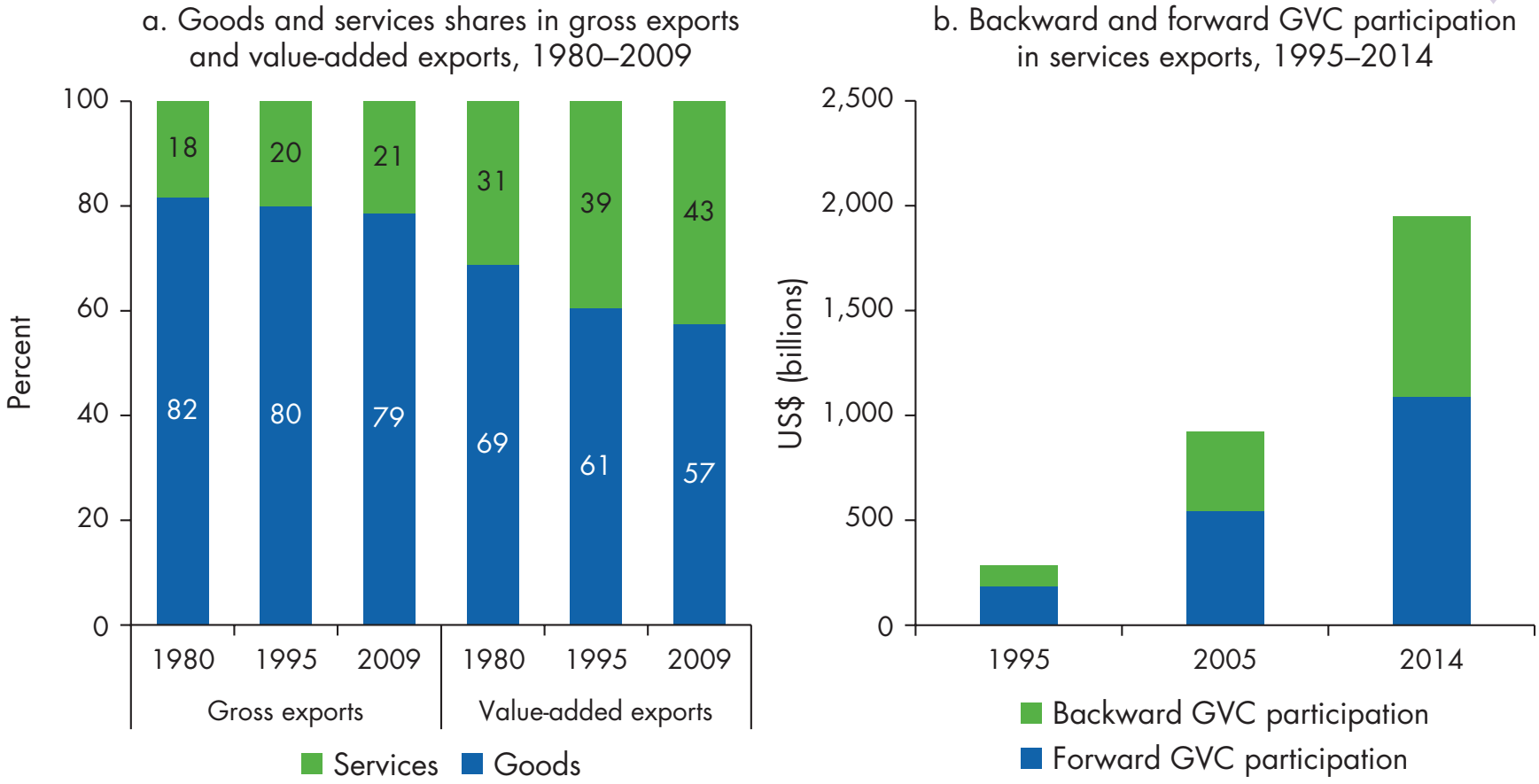
Map O.1 All countries participate in GVCs—but not in the same way



Source: WDR 2020 team, based on the GVC taxonomy for 2015 (see box 1.3 in chapter 1).

Note: The type of a country's GVC linkages is based on (1) the extent of its GVC participation, (2) its sectoral specialization in trade, and (3) its engagement in innovation. Details are provided in figure 1.6 in chapter 1.

Figure 1.12 Services are playing a growing role in GVCs



Sources: WDR 2020 team, using data from Johnson and Noguera (2017) for value-added exports measure in panel a and WIOD data from the 2013 release for 1995 and the 2016 release for 2005 and 2014 for panel b.

Goodbye Globalization?

or

Hello Opportunity?

Ill omens

- During the last decade, neither global trade, foreign direct investment, nor stocks of cross-border bank lending returned to their 2000s peak as a share of global GDP.

- Fears of protectionism during the financial crisis materialized with the ascendancy of the current U.S. administration pf President Trump.

- The COVID-19 pandemic is playing to everyone's worst fears:
  - borders have gotten shut,
  - trade costs are projected to rise when borders open-up,
  - "vigilant" policies against foreign acquisitions of domestic companies cropping up everywhere,
  - preferred terms for local firms are spiking to avoid the revealed dependence on others, especially China
  - the bigger, richer countries and blocs are thinking of ways to shake up the status quo

Think the unthinkable….

In his recent FT interview, the French President, Emmanuel Macron, proposed it may be time to "think the unthinkable":

Transform capitalism

https://www.ft.com/content/3ea8d790-7fd1-11ea-8fdb-7ec06edeef84

Academy

- Petricevic, O., and Teece, D. J. (2019). The structural reshaping of globalization: Implications for strategic sectors, profiting from innovation, and the multinational enterprise. *Journal of International Business Studies*, *50*(9), 1487-1512. https://link.springer.com/article/10.1057/s41267-019-00269-x

Business resilience

Business can cope with awful surprises – up to a point

- Significant disruptions in supply chains are not only those attributable to "first tier" suppliers; it is the disruption due to second and third and fourth tier suppliers of GVCs that are equally scary and very difficult to anticipate.

- Buffering strategies:
  - Supplier base diversification ↑
  - Inventory ↑
  - Working capital ↑ (cash holdings of the top 2000 listed non-financial corporations increased from $6.6trn in 2010 to $14.2trn today)
  - Insuring against rare risks ??

Figure 1.5 Country transitions between different types of GVC participation, 1990–2015

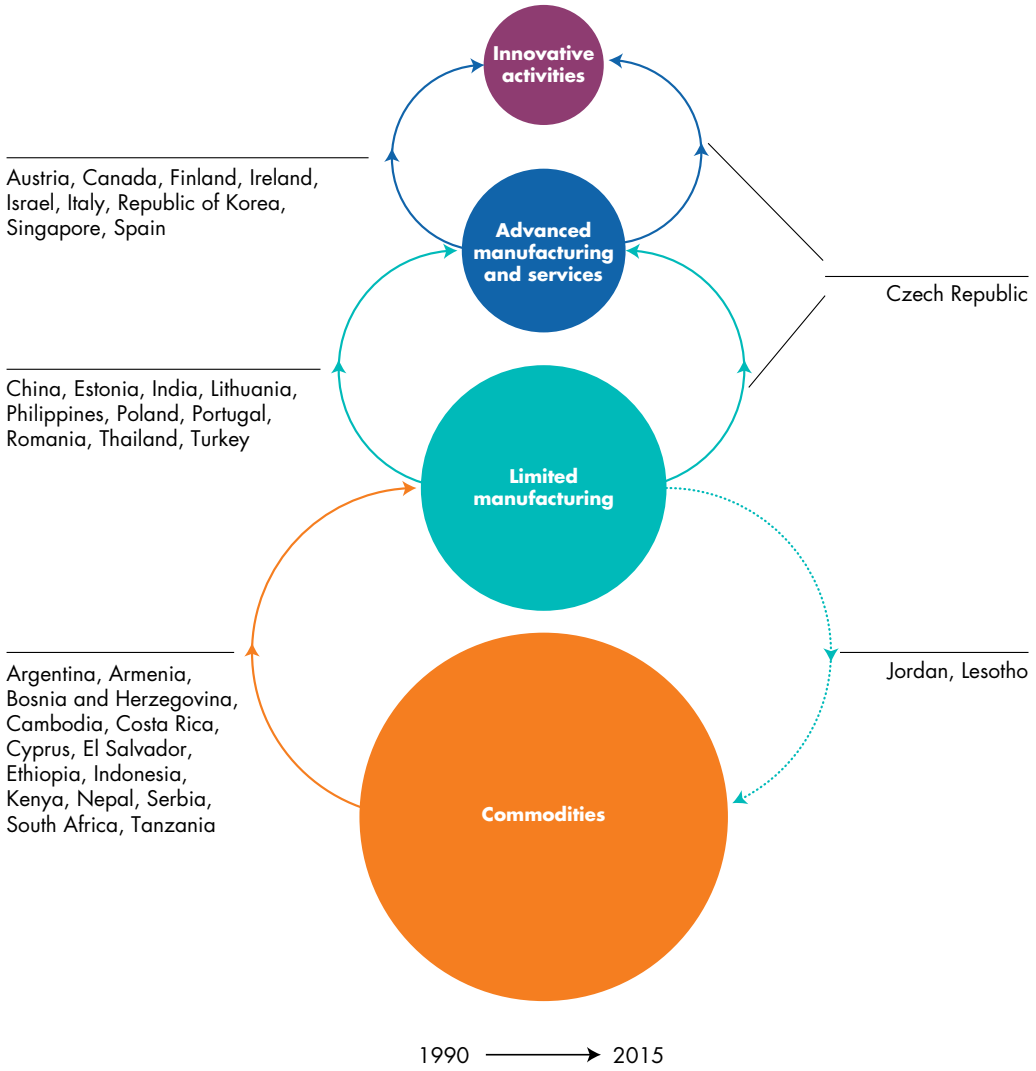
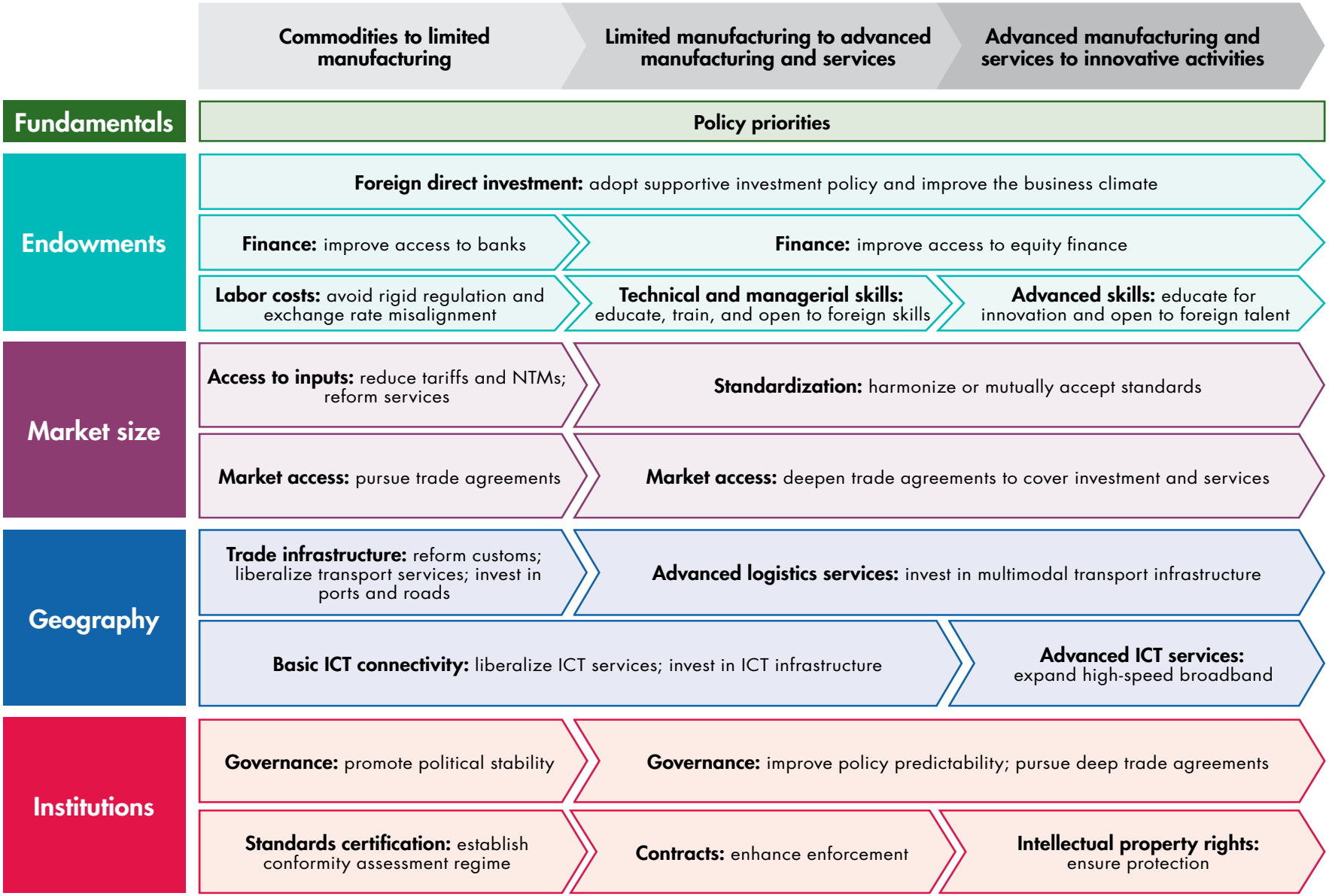


Figure O.4 Transitioning to more sophisticated participation in GVCs: Some examples of national policy



Source: WDR 2020 team.

Note: ICT = information and communication technology; NTMs = nontariff measures.

Thank you!!!

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