

Is the world de-globalizing?: Yes but seemingly more for trade and with winners and losers



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KEY ISSUES

1. Trade and global value chains have been slowing down and reducing their size
2. As for foreign investment, the de-globalization trend is less pronounced but still noticeable
3. People to people globalization had started to slow down before Covid-19 already
4. Technology protectionism still embryonic but facilitated by US-China decoupling
5. US-China strategic competition is also moving towards a currency war
6. Key takeaways

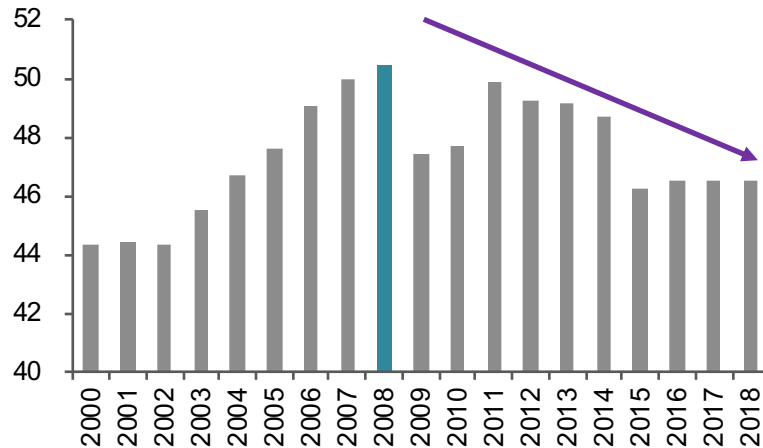
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TRADE AND GLOBAL VALUE CHAINS HAVE BEEN SLOWING DOWN AND REDUCING THEIR SIZE



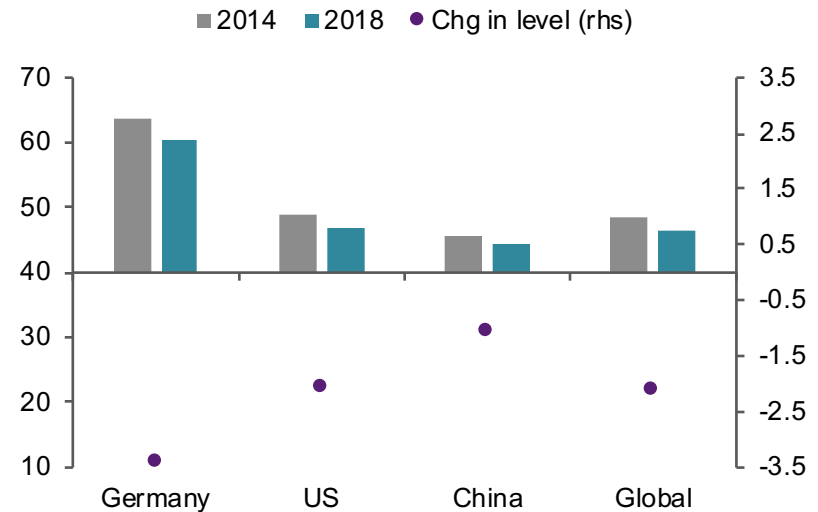
Global value chain (GVC) integration has been declining since the global financial crisis. The decline has been much bigger for Europe (Germany), followed by the US, than for China

World GVC Participation (%)



Source: UNCTAD-Eora database, Natixis
N.B. Results for 2016-2018 are forecasted by UNCTAD-Eora

GVC Participation (%)



Source: UNCTAD-Eora database, Natixis
N.B. Results for 2016-2018 are forecasted by UNCTAD-Eora

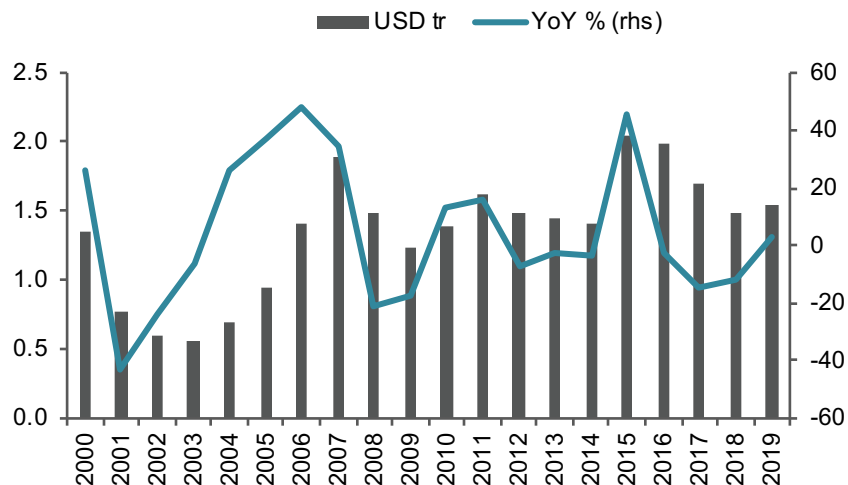
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**FOR FOREIGN INVESTMENT,
THE DE-GLOBALIZATION
TREND IS LESS PRONOUNCED
BUT STILL NOTICEABLE**



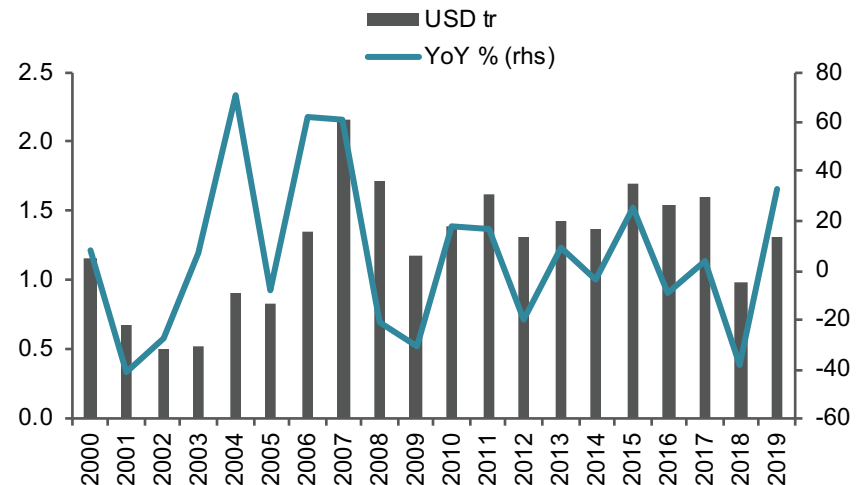
FDI flows has been trending downwards since the GFC but with a noticeable recovery in 2019. Preliminary data for 2020 points to a collapse in M&A activity

World inward FDI flow



Source: Natixis, UNCTAD

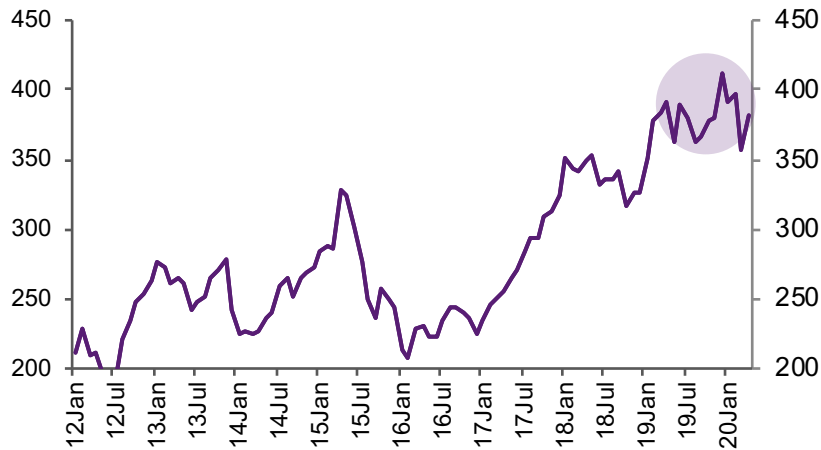
World outward FDI flow



Source: Natixis, UNCTAD

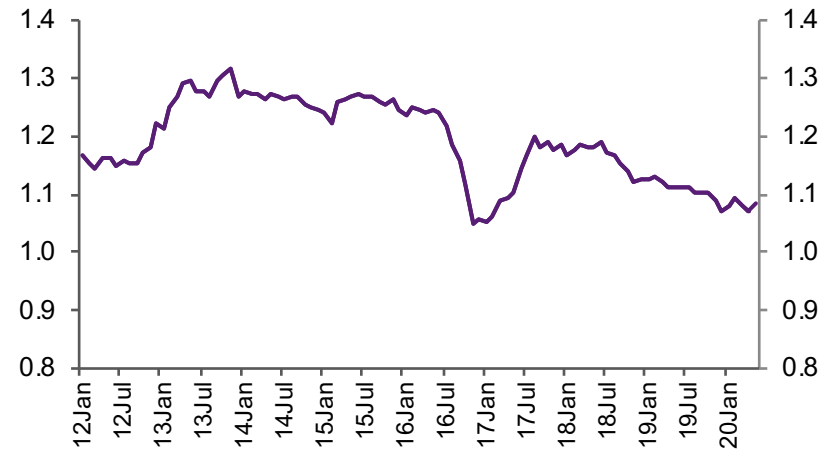
US holding of Chinese securities has stagnated since early 2020. Same for China's holding of US treasuries

US holding of Chinese long-term securities
(USD bn)



Source: TIC, Natixis
N.B. Chinese long-term securities include both Mainland China and Hong Kong

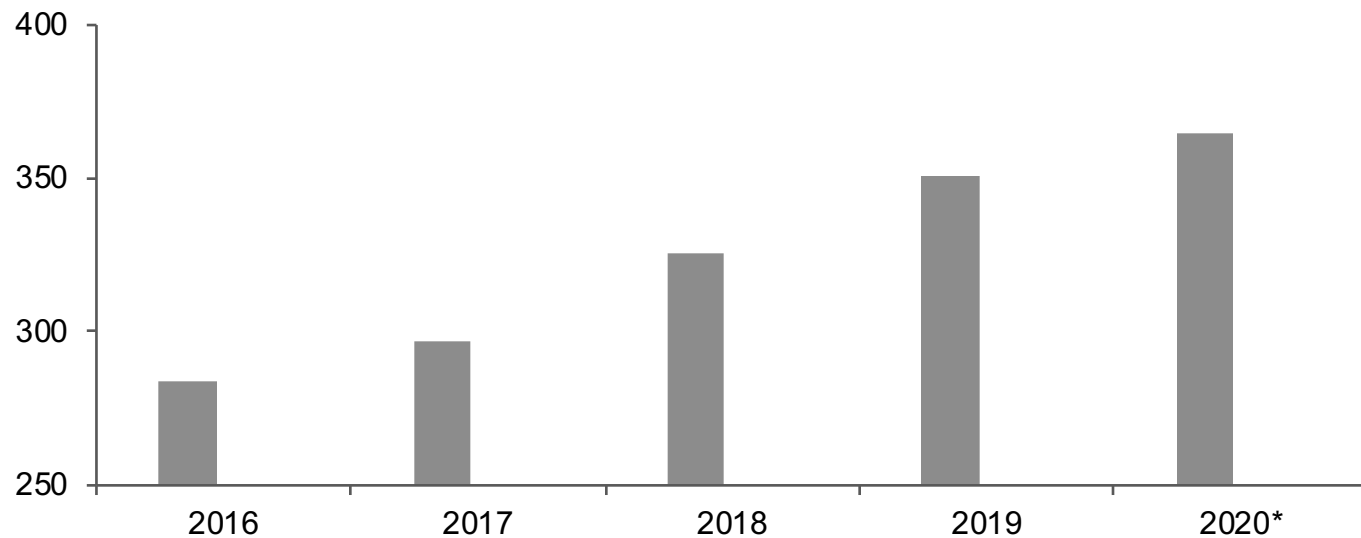
China's holding of US treasuries
(USD tr)



Source: TIC, Natixis

For equity markets, the US continues to attract attention for listing including from the Mainland but the delisting trend for geopolitical reasons is becoming apparent

Number of Chinese corporates listed in US



Key de-listings of Mainland China or Hong Kong companies



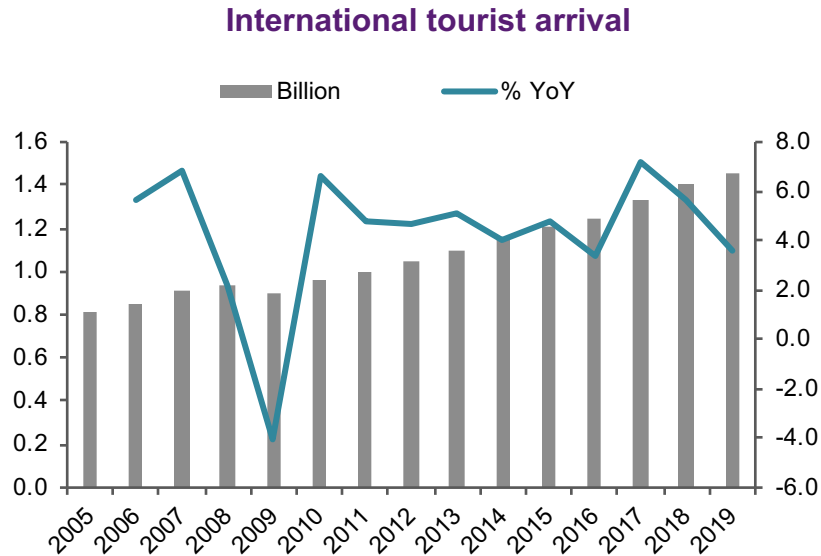
Source: Bloomberg, Natixis
* As of Aug-13 for 2020

3

PEOPLE TO PEOPLE GLOBALIZATION SLOWING DOWN EVEN BEFORE COVID-19



Short-term visitor arrivals have been coming down since 2018 and crushing in 2020 due to mobility restrictions

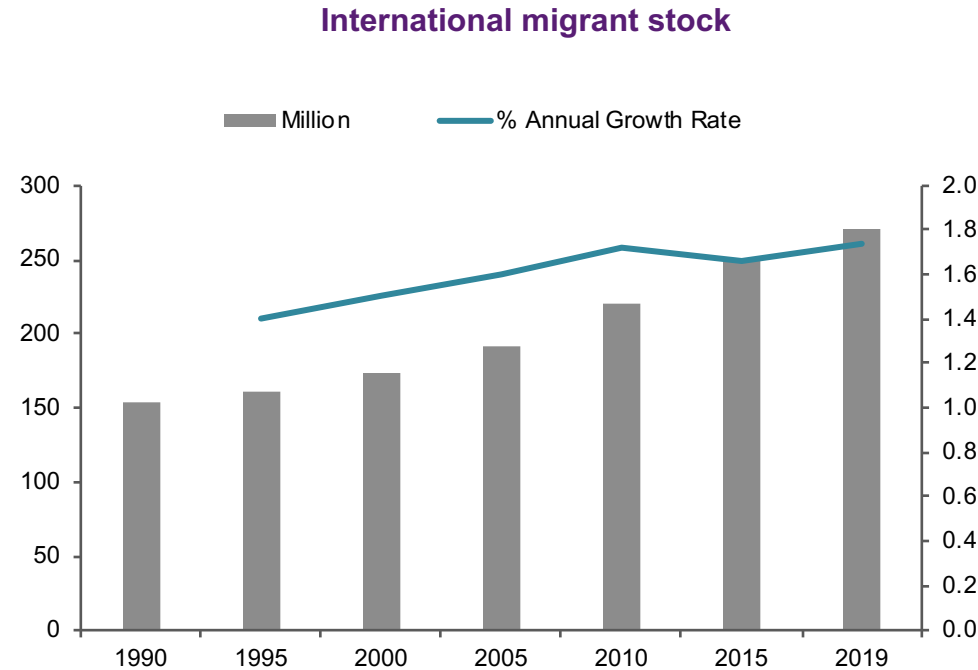


Source: UNWTO, Natixis



Source: Airports council international, Natixis

Although the number of international migrant has been rising, the growth is also flattening



Source: UN, Natixis

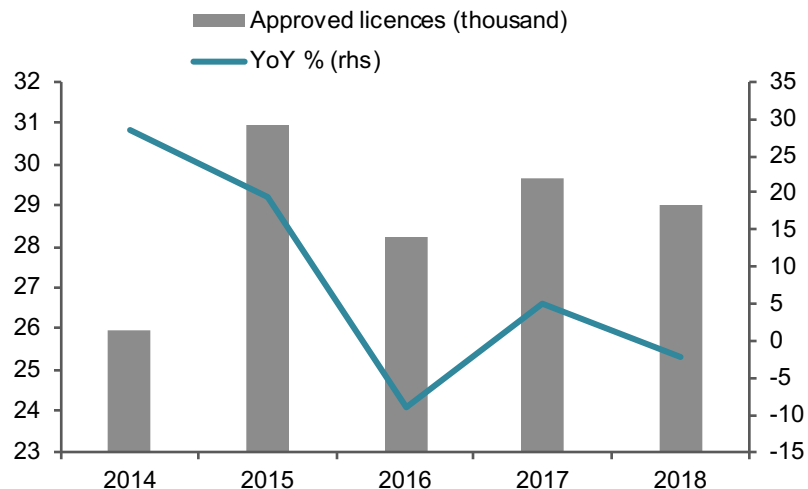
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TECHNOLOGY PROTECTIONISM STILL EMBRYONIC BUT FACILITATED BY US-CHINA DECOUPLING



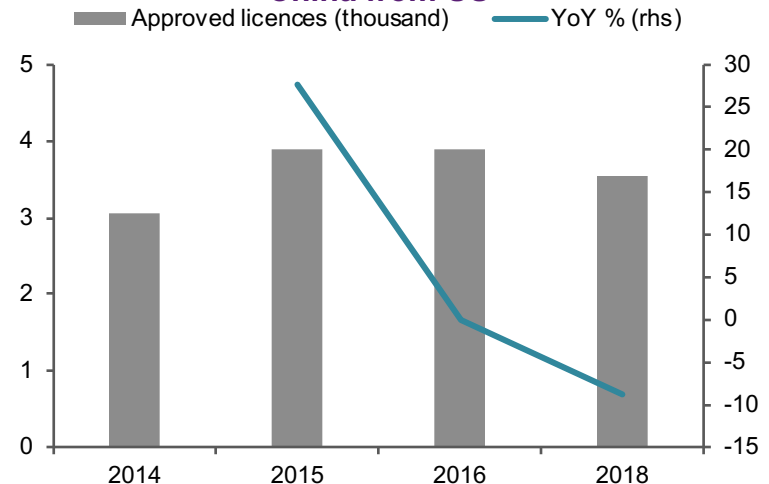
Export controls for sensitive technology have been escalating generally, and even more so between the US and China

Approved licenses for tangible items, software and technology (US)



Source: U.S. Department of Commerce the Bureau of Industry and Security, Natixis

Approved licenses for tangible items, software and technology exported to China from US



Source: U.S. Department of Commerce the Bureau of Industry and Security, Natixis

Sanctions against Chinese tech is moving beyond export control to investment ban

	Pentagon List	Chinese Military Firms	BIS Entity List
Channel	- Department of Defense (DOD)	- Office of Foreign Assets Control (OFAC) via the Treasury	- Bureau of Industry and Security (BIS) via the Commerce Department
Type of actions	<ul style="list-style-type: none">- The list does not trigger penalties- It is now linked to the EO 13959	<ul style="list-style-type: none">- Investment ban- Based on a list of Chinese Military Firms	<ul style="list-style-type: none">- Export control- Based on the BIS entity list

Source: Natixis

Foreign investment screening into high-tech sectors has toughed significantly, which is especially targeted at Chinese investments

USA

- ☛ The US has expanded the use and the scope of the Committee on Foreign Investment in the United States (CFIUS), with the particular aims to
 - ***cover all possible deals, including the non-controlling transactions***
 - ***oversight real estate transactions near the sensitive facilities***

Recent examples: Tiktok, Wechat

European Union

- ☛ The new EU framework for the screening of foreign direct investments has officially entered into force on 10 April 2019.
- ☛ The **EU-China bilateral investment treaty (BIT)** is still under negotiation

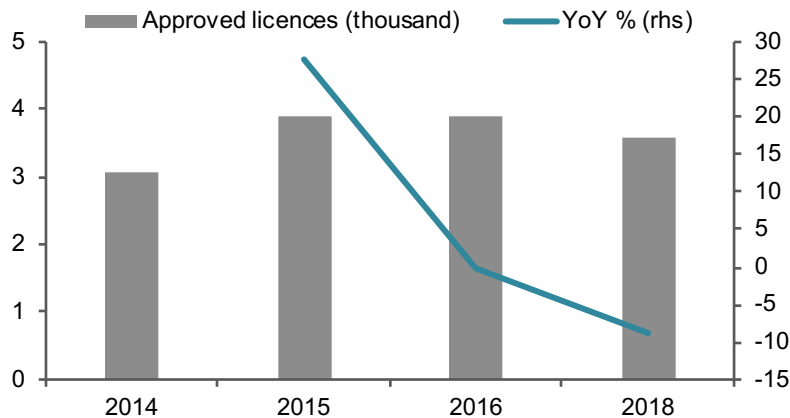
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US-CHINA STRATEGIC COMPETITION IS ALSO MOVING TOWARDS A CURRENCY WAR



Weaponizing the USD should hamper the dollar's reserve currency status especially if dealing with such a large economy as China but it will not be immediate

Approved licenses for tangible items, software and technology exported to China from US



Source: U.S. Department of Commerce the Bureau of Industry and Security, Natixis
N.B. Data of 2017 was not included due to unavailability

Inclusion on the 'entities list'

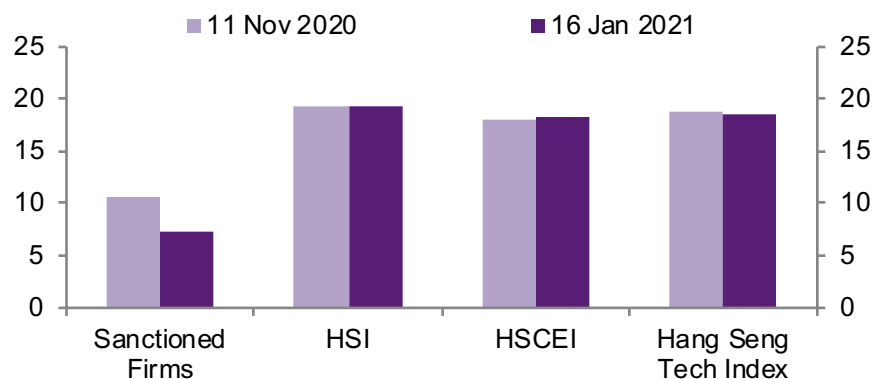


Source: CGTN

What might be more dangerous for the USD reserve currency status is not sanctions but bi-furcation (decoupling)



Hong Kong: Share of Holding by US Financial Intermediaries (%)



N.B. Total number of Issued Shares/Warrants/Units included. Market Intermediaries include CCASS Participants other than Investor Participants. Sanctioned firm list as of 14 Jan 2021. Sanctioned firms excluded in the calculation for HSI, HSCEI and Hang Seng TECH Index. Source: Natixis, Hong Kong Exchange and Clearing

Asymmetric Competition: A Strategy for China & Technology

Actionable Insights for American Leadership

The Longer Telegram:
Toward A New American China Strategy

Another potential risk for the USD is the use of the China's digital currency beyond borders



Thailand and Hong Kong to become important laboratories for the E-RMB overseas role



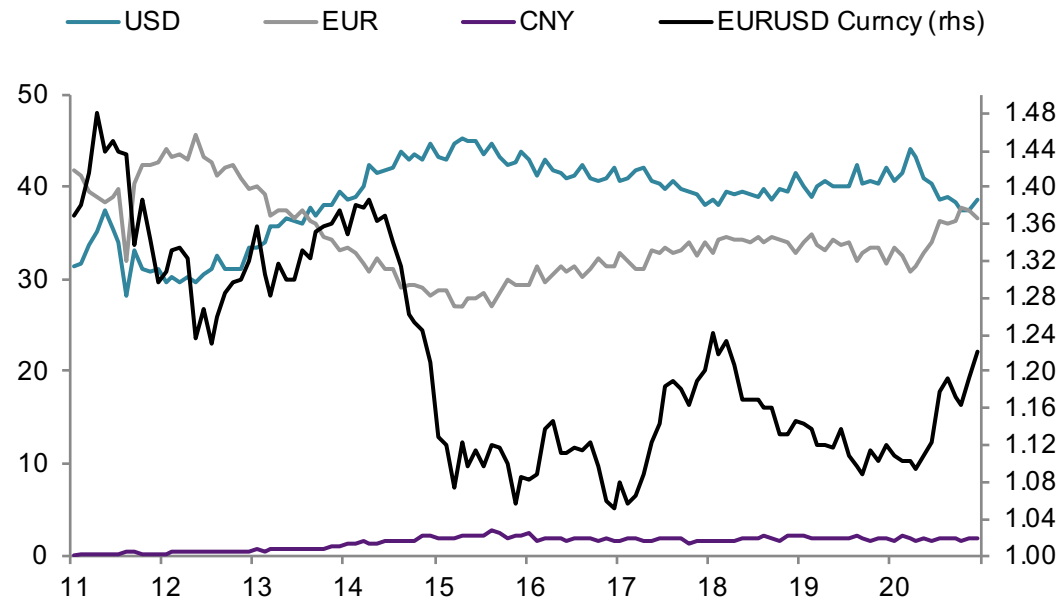
HONG KONG MONETARY AUTHORITY
香港金融管理局



ธนาคารแห่งประเทศไทย
BANK OF THAILAND

Still the USD's role as international currency does not really depend on its cyclical strength or weakness but rather on more complex issues.

Share as international payment currency (%)



Source: SWIFT, Bloomberg, Natixis

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KEY TAKEAWAYS



Key takeaways

- De-globalization trends more intense for trade and global value chains.

Trade slowing down and global value chain shrinking for years

Constraints to trading sensitive technology clearly on the rise

- Financial flows seem less affected but still not following the pace of economic growth.

This is specially true for FDI

- People to people flows have started to decelerate since 2018 and much more sharply since Covid-19.
- Tech bifurcation is an ongoing trend.
- Finally, currency competition is here with us to stay but there is a very long way to go for the USD to be displaced from its role as the world's reserve currency.

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