



Globalisation, Global Trade And Supply Chains In The Era Of Covid-19: Where Does Global Trade Go From Here?



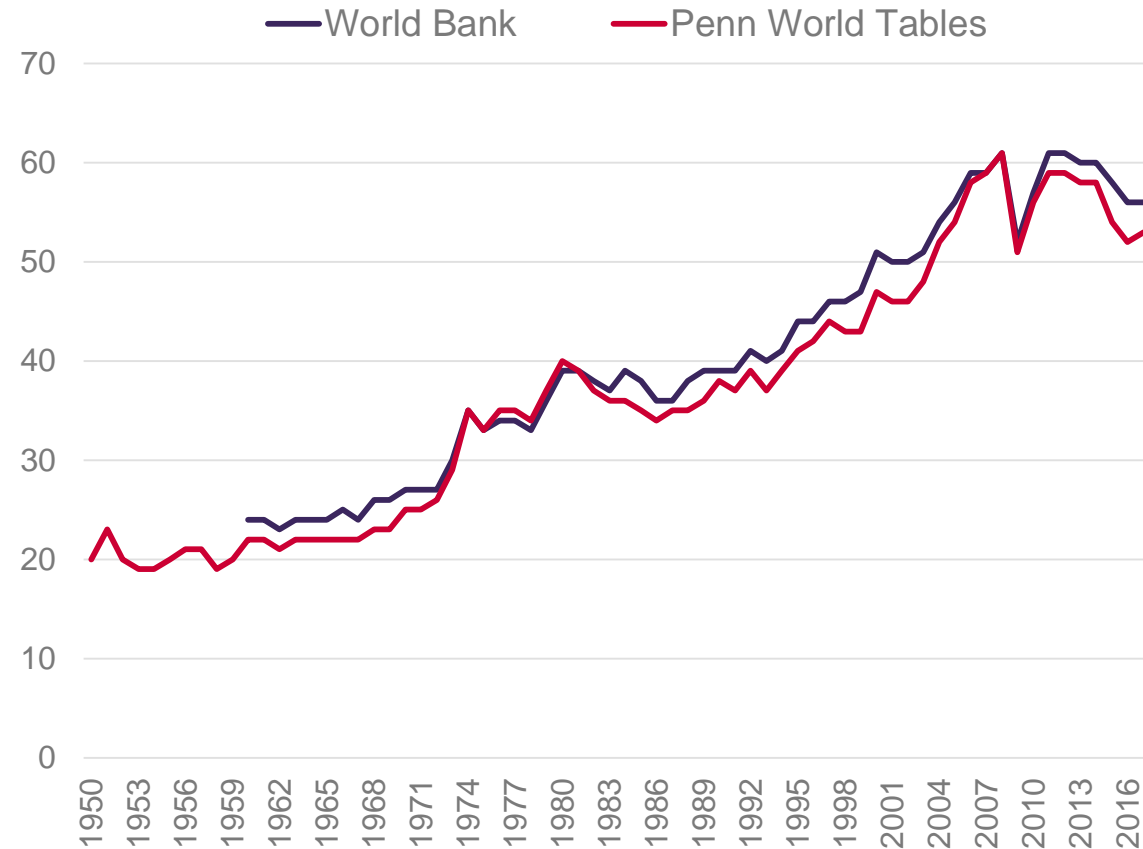
Presenter: Julie Beckenstein, Deputy Head of Country Risk

September 30, 2020

Globalisation Has Passed Its Peak

Globalisation Reversing Course...

Trade Openness Indices



Note: Index is defined as the sum of world exports and imports divided by world GDP.
Source: Our World In Data, World Bank, Penn World Tables, Fitch Solutions

...As Major Drivers Have Run Out Of Steam

Factors That Contributed To Deepening Global Integration

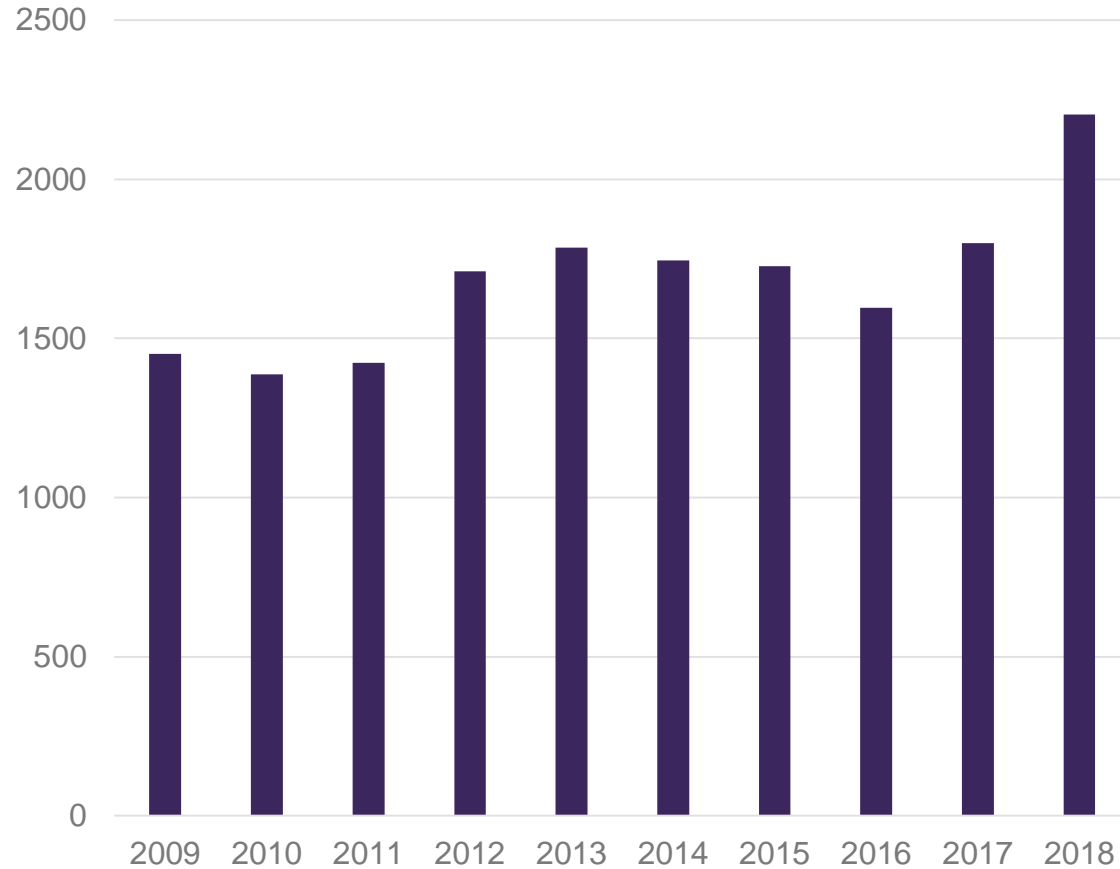
Event	Date	Ongoing Impact?
Collapse of Soviet Union	1991	One-off event
Rise of the internet	1991 (Date internet became publicly available)	Ongoing, although the most significant gains behind us
Free market reforms in India	Initiated in 1991	One-off event
WTO comes into being	1995	One-off event
China joins WTO	2001	One-off event

Source: Fitch Solutions

Regionalisation Not Globalisation Will Drive Integration Going Forward

Embracing Of Protectionist Policy Pre-Dates Trade War...

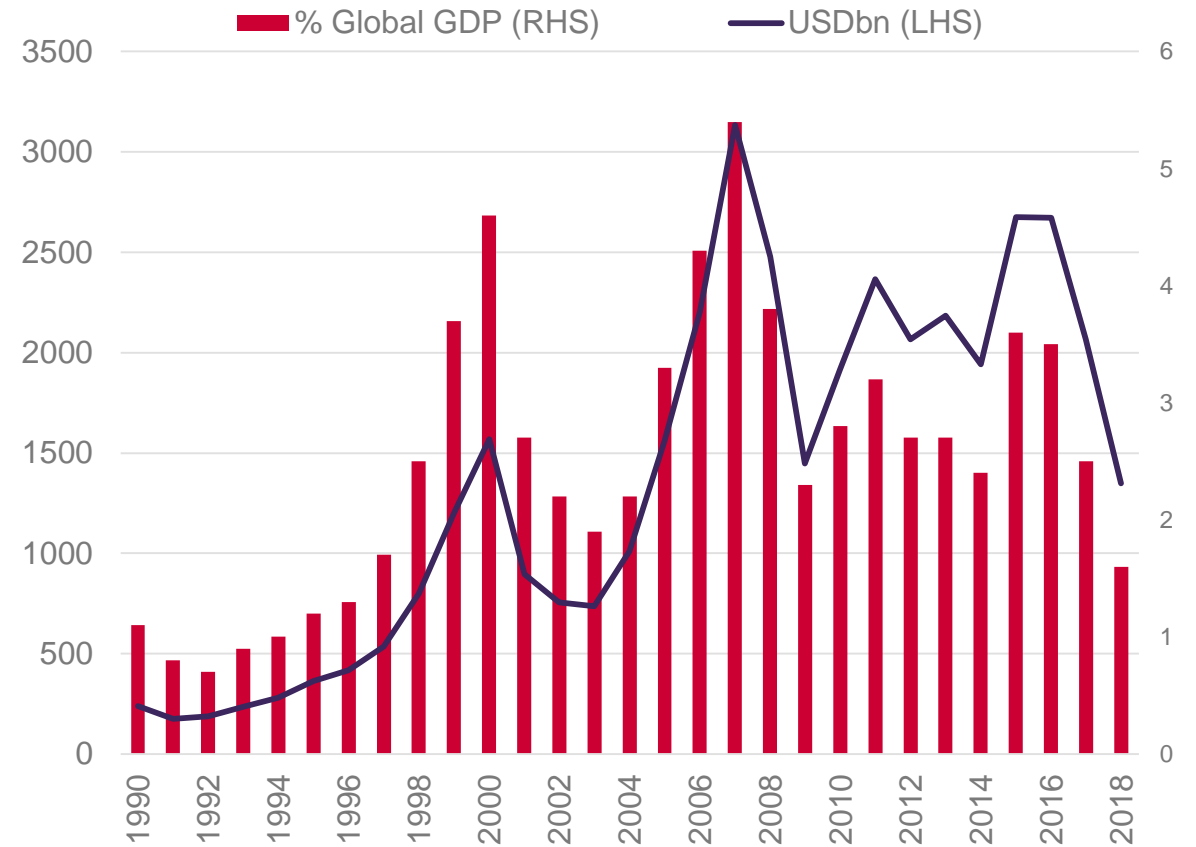
Total Number Of Harmful Trade Interventions Per Year



Source: Global Trade Alert, Fitch Solutions

...And Will Continue To Weigh On Global Investment

Global - Net FDI Inflows

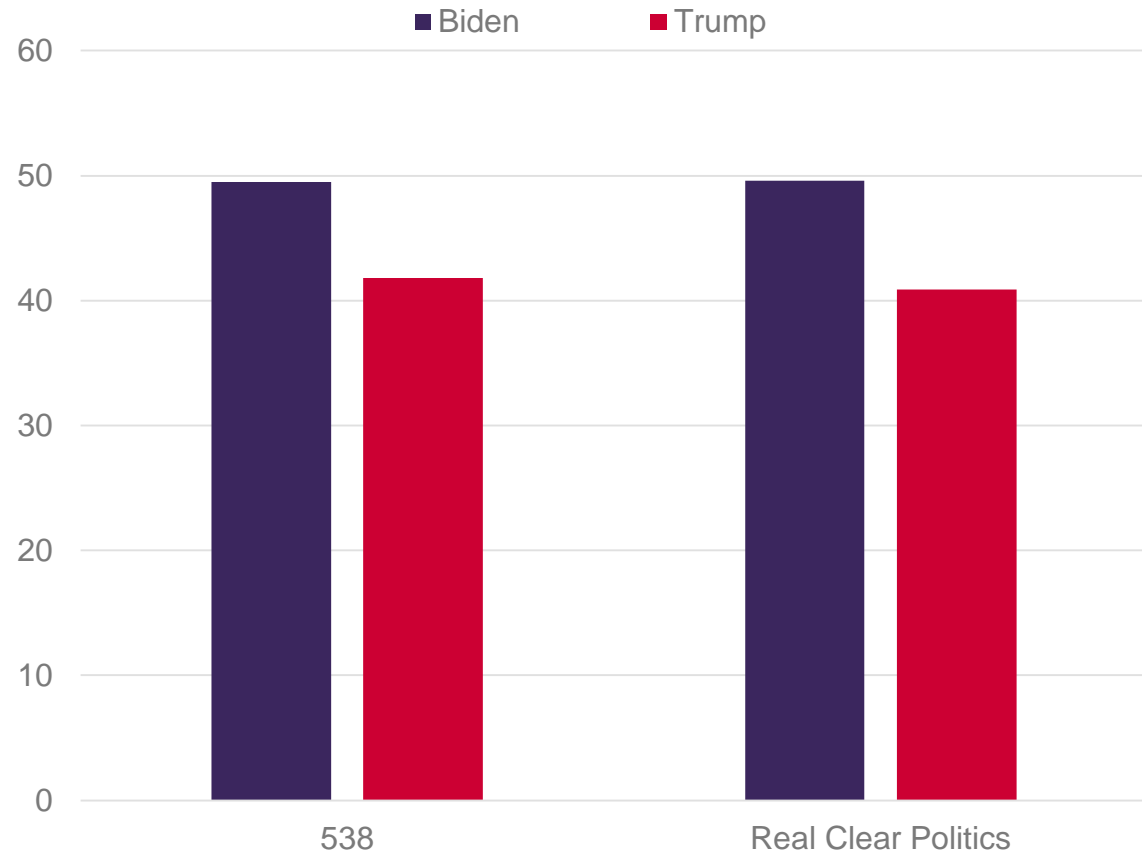


Source: World Bank, Fitch Solutions

US-China Tensions Are Here To Stay Irrespective Of US Election Result

Biden Looks On Track To Win...

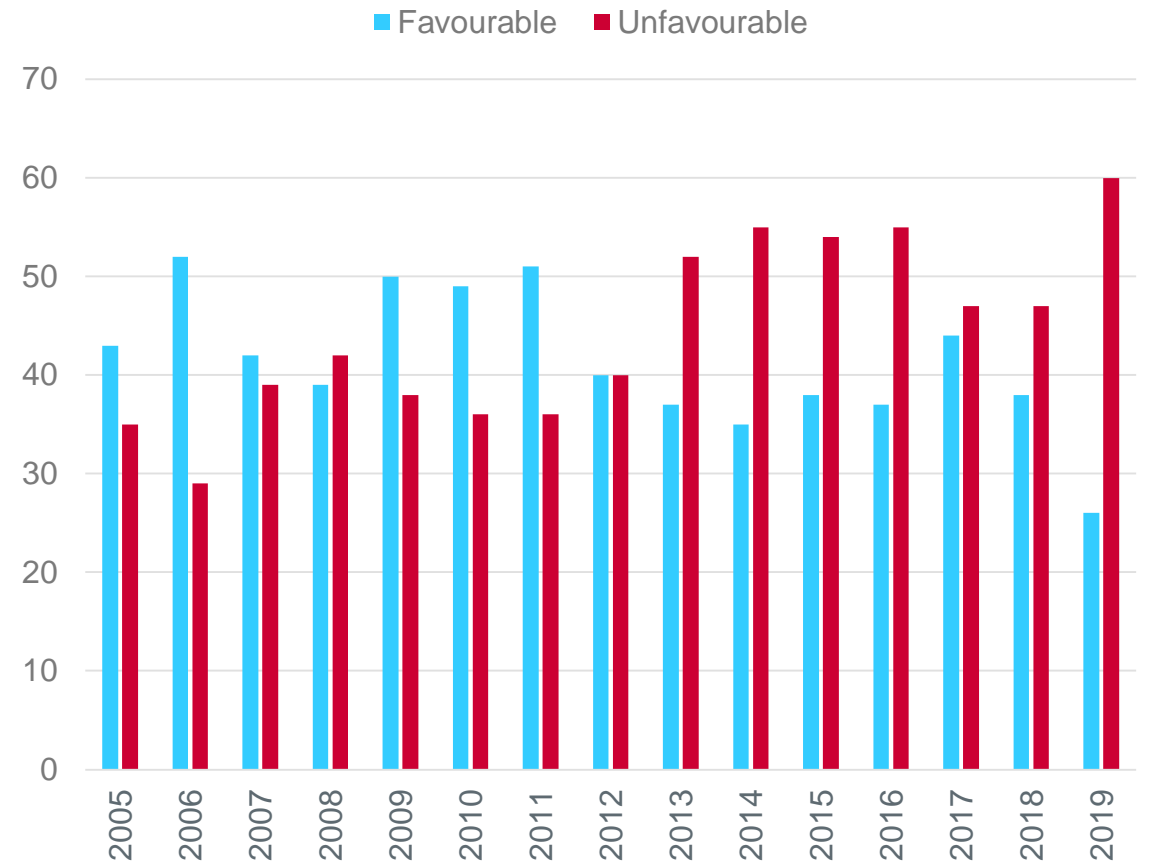
US - National Polling Average, %



Source: 538, Real Clear Politics, Fitch Solutions. Last updated: July 23

...But US Paradigm Shift Makes It Hard To Walk Back Tensions

US - Share Of Americans Who Have A Favourable/Unfavourable View Of China, %

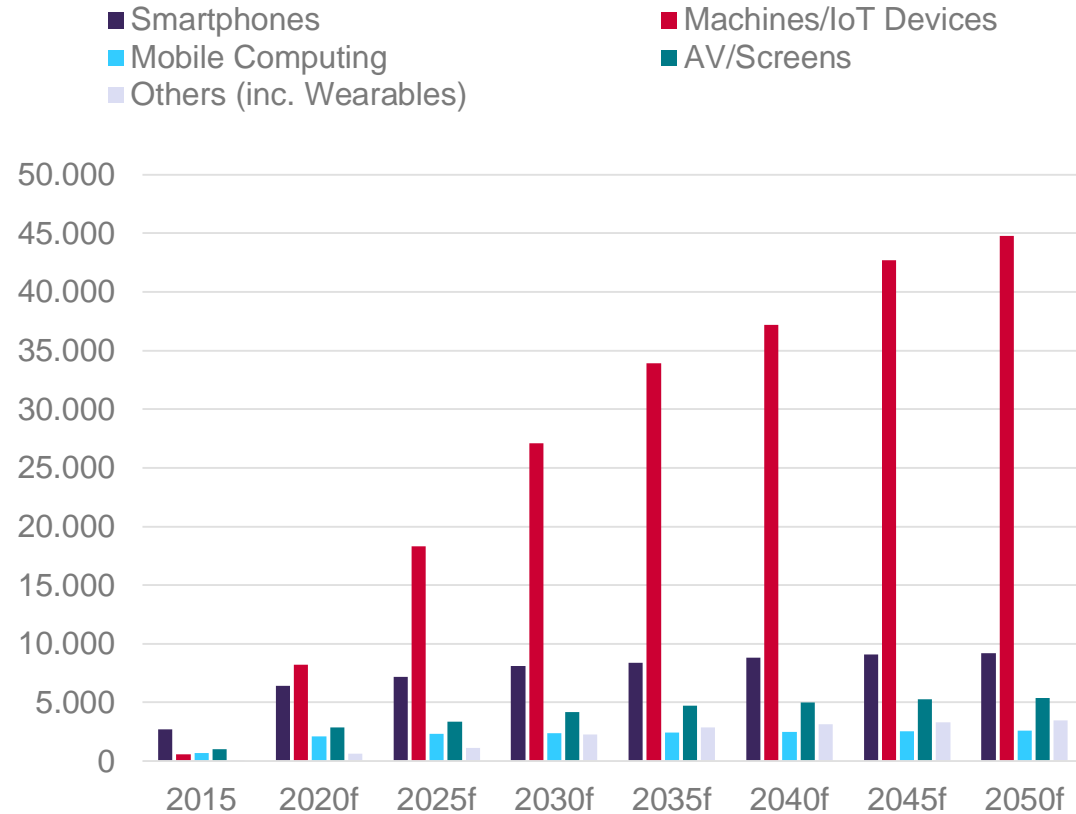


Source: Global Trade Alert, Fitch Solutions

Technology Advances Will Heighten US-China Tensions

Cybersecurity A Concern In A Hyperconnected World

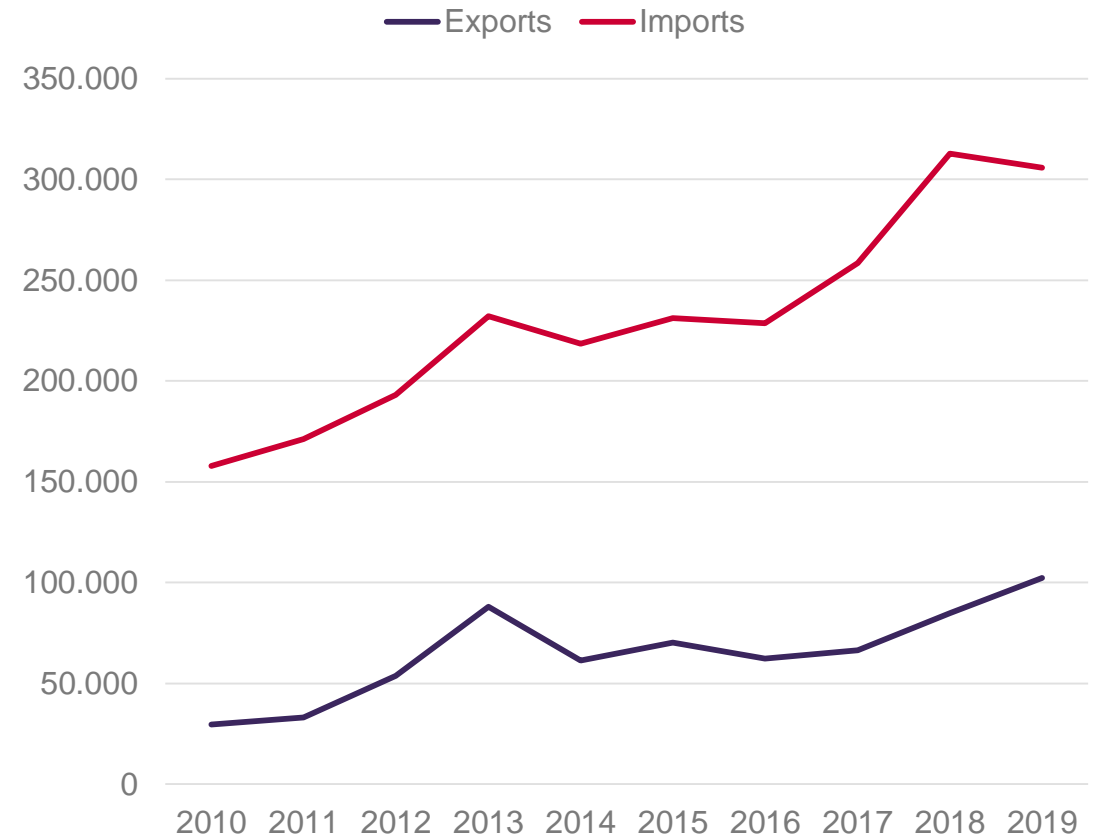
Global - Connected Devices By Type, mn



f = forecast. Source: Fitch Solutions

China Still Reliant On Foreign-Made Chips

China - Semiconductor Trade, USDmn (2010-2019)



Source: Trade Map, Fitch Solutions

China Plus One Strategy Popular, But Near-Shoring Gaining Ground

Firms Moving Out Of China Have Several Options

Supply Chain Diversification Options

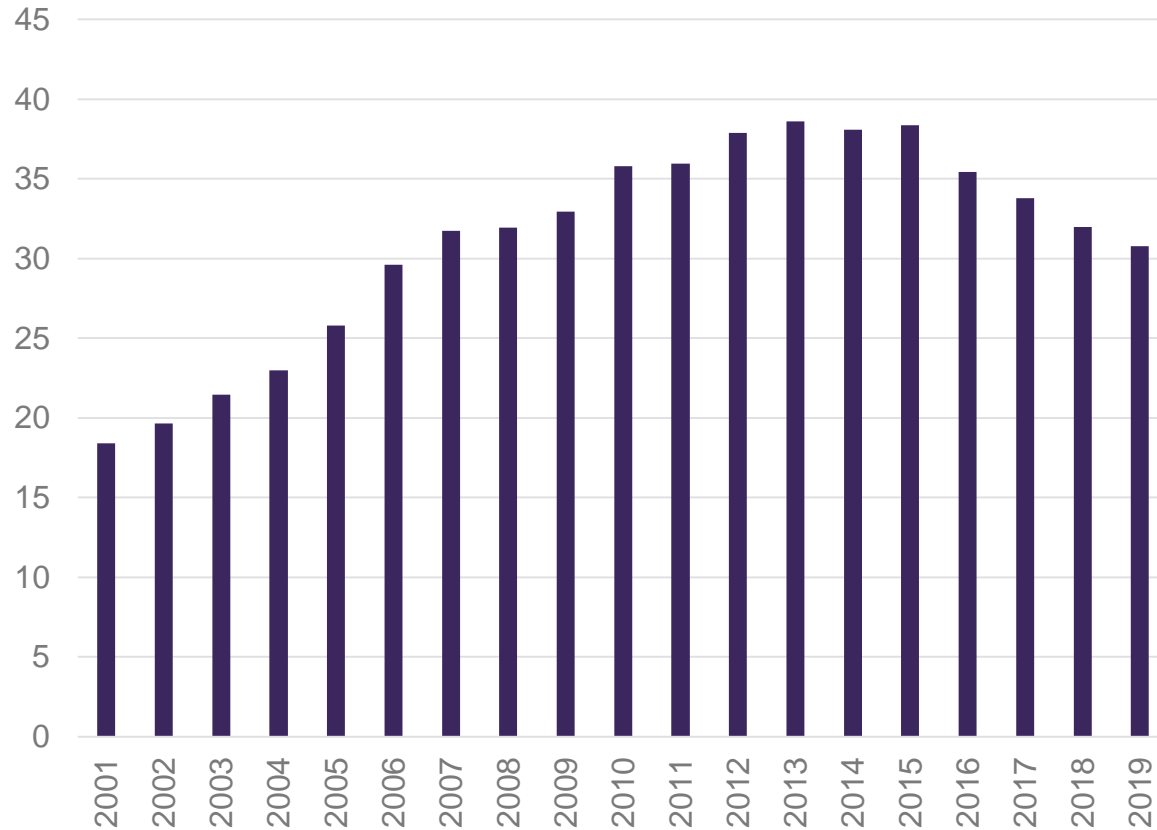
Type	Description	Impact
China Plus One	Firms keep a large portion of their manufacturing in China but develop a second supplier outside of the country, often in the same region.	Improves supply chain security by removing the risk of a single point of failure while maintaining access to the Chinese manufacturing capacity and consumer market. This is usually the cheapest option.
Near-shoring	Firms bring business operations to the same region as the primary consumer base.	Reduces transit time and often helps avoid geopolitical risk. In some sectors (eg, autos and heavy manufacturing) this option allows companies to take advantage of better agglomeration effects.
Reshoring	Firms move manufacturing back to their home market.	Usually too costly unless there is significant investment in automation or government support, but it substantially cuts logistics and geopolitical risk.

Note: List is non-exhaustive. Source: Various sources, Fitch Solutions

China Will Continue To Lose Global Market Share In Apparel

China's Share On The Decline

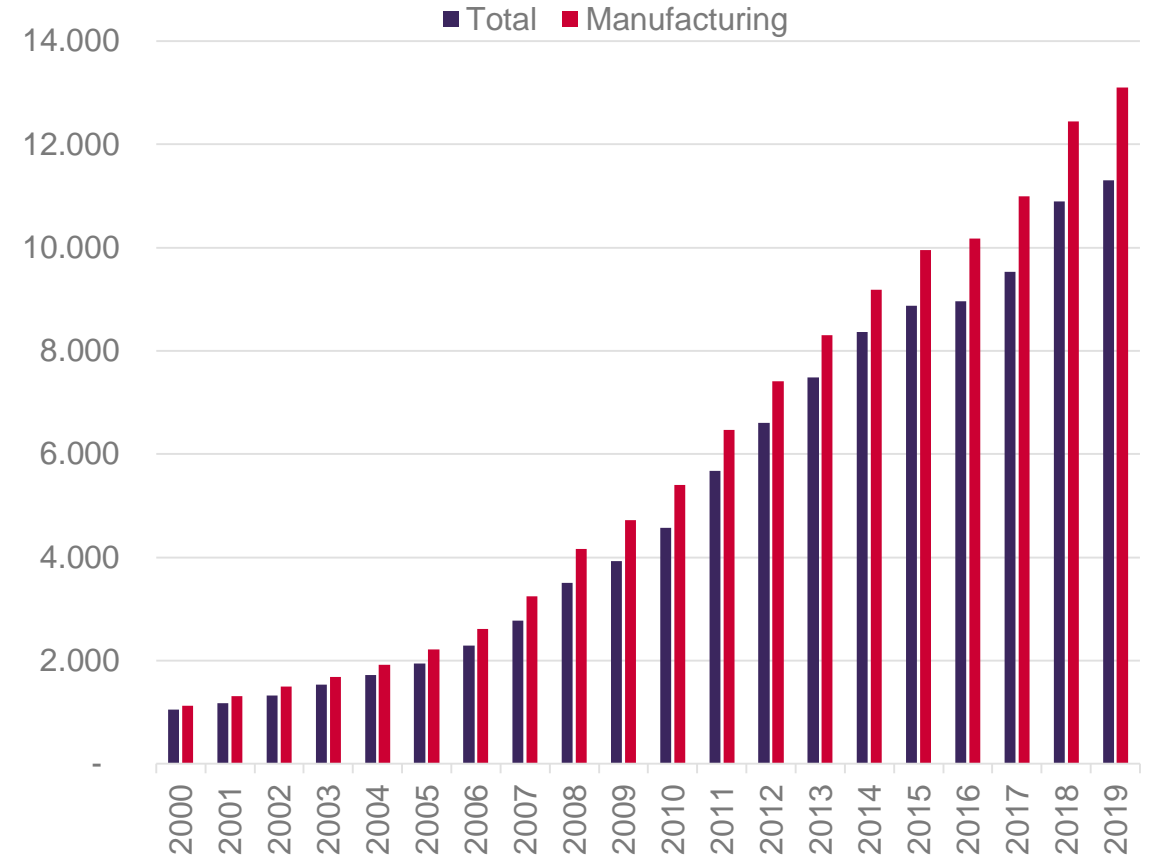
China - Apparel Global Export Share, % of total



Source: National sources, Fitch Solutions

Rising Wages In China Making It Less Attractive

China - Average Annual Wages, Standardised in USD



Source: ILO, WIND, Fitch Solutions

Which Countries Will Benefit From Global Apparel Supply Chain Shifts?

Bangladesh And Ethiopia Stand Out As Low Cost Alternatives, Egypt Also One To Watch

Stylised Representation Of Key Determinants For Global Textile And Apparel Manufacturing

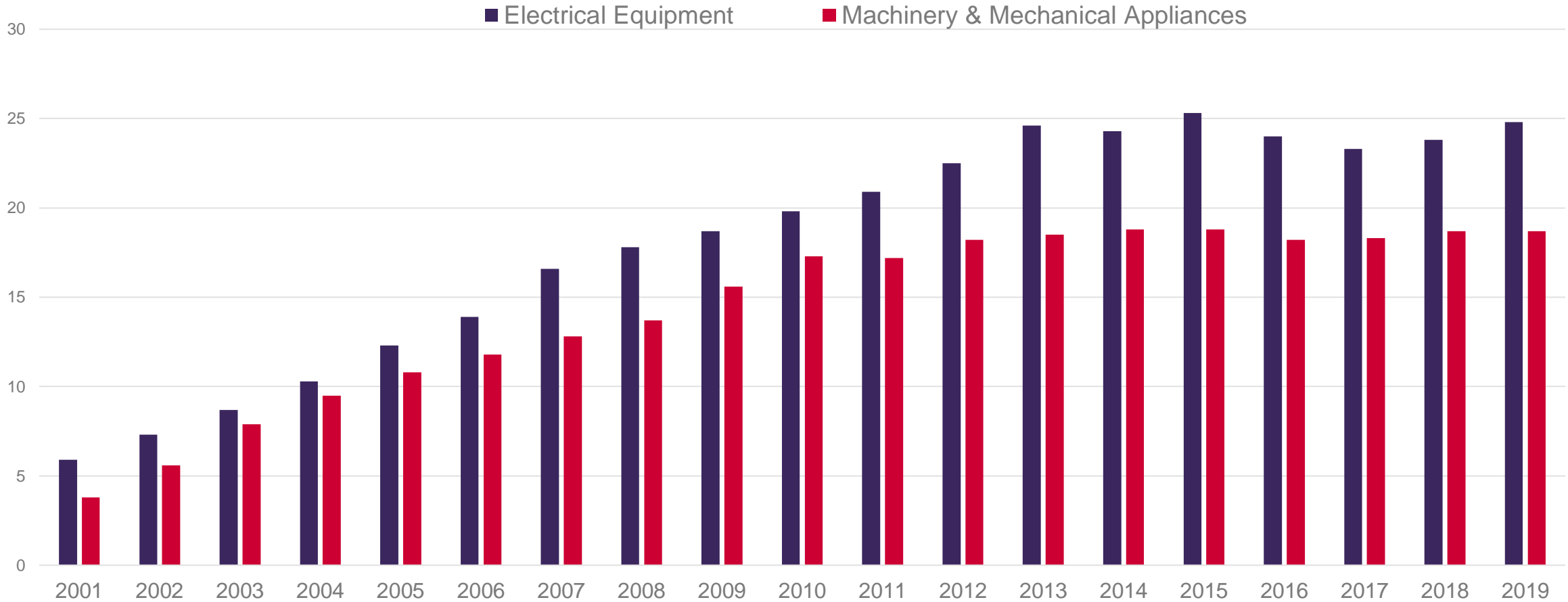
	Labour Costs	Labour Availability	Apparel Manufacturing Sector And Access To Inputs	Access To Large Consumer Market (Transport, Geographic Proximity And Trade Agreements)	Political Risk And Business Environment
Ethiopia	Very Low	High	Medium	Low	Medium
Bangladesh	Low	High	High	Medium	Low
Myanmar	Low	Medium	High	Medium	Low
Vietnam	Medium	High	High	High	High
Egypt	Medium	High	Medium	High	Medium
Ukraine	Medium	Medium	Low	High	Medium
Cambodia	Medium	Low	High	Medium	Medium
Central America	Medium	Low	Medium	Medium	Low
Turkey	High	High	High	High	Medium
Mexico	High	High	Low	High	Medium
Jordan	High	Low	High	High	Medium
Morocco	High	Medium	Medium	High	High

Note: High in Political Risk and Business Environment = lower risk. Source: Fitch Solutions

China Will Remain A Dominant Force In Mid-Range Manufacturing

China Will Only Lose Global Market Share Slowly

China – Electrical Equipment & Mechanical Machinery Exports, % Total Global Exports



Source: Trade Map, Fitch Solutions

Which Countries Will Benefit From Mid-Range Manufacturing Supply Chain Shifts?

Mexico, Vietnam, Central And Eastern Europe, And Morocco Stand Out

Stylised Representation Of Key Determinants For Global Mid-Range Manufacturing Including Electronics, Vehicles And Parts, And Machinery

	Current Mid-Range Manufacturing Capacity/ Industrial Clusters	Labour (Cost, Availability, Flexibility)	Connectivity And Preferential Trade Access	Business Environment	Country Risk (Political And Economic)
China	High	High	High	High	Medium
Mexico	High	High	High	Medium	Medium
Vietnam	High	Medium	High	Medium	High
CEE ex Romania	High	Low	High	High	High
Thailand	High	Low	Medium	High	High
Morocco	Medium	Medium	Medium	High	High
Turkey	Medium	Medium	High	High	Low
India	Medium	High	Medium	Low	Medium
Romania	Medium/Low	Low	High	High	Medium
South Africa	Medium	Medium	Medium	Low	Low
Egypt	Low	Medium	Medium	Medium	Low
Saudi Arabia	Low	Low	Medium	High	Medium
Kenya	Low	Medium	Low	Medium	Low
Colombia	Low	Low	Medium	Medium	Low
Nigeria	Low	Medium	Low	Low	Low
Brazil	Low	Low	Low	Low	Low

Questions?