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CLOUDS HANGING OVER GLOBALIZATION

"How is it that the clouds still hang on you?", Hamlet

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Bruno Desgardins ***31 March 2016***

In 1995, I published an academic work, "Le nouvel environnement international" (The new global environment), on the theme of globalization. Since then, there has been a surge in the number of multinational firms, and years of global trade growth at twice the pace of GDP growth. To symbolize a world of vanishing differences between peoples and cultures, we could adopt the expression of a Wall Street Journal editorialist, ***Thomas Friedman,*** who in 2006 published a book entitled ***"The World is Flat"***, or use the famous saying by ***General Sertorius to Pompey in Corneille's tragedy "The Death of Pompey": "Rome n'est plus dans Rome, elle est partout où je suis" (Rome is no longer in Rome, it is wherever I am)***.

Then came the 2008 crisis, leading to more widespread doubts over globalization, and a denunciation of its presumed evils. Today, the WTO struggles to have new liberalization agreements accepted, the virtues of free trade are brought into question by a protectionist movement and innumerable nation states are exposed to ethnic or religious strife, threatened by "feudalization" or even break-up. Faced with globalization, populations are suffering an identity shock and a loss of bearings, they have the impression that the "elites" are trapped in an economic vision of the world and that governments are struggling to master economic change. Hence the fall from grace of politics, a situation reminiscent of the analysis by ***Heidegger: a globalized capitalism which deprives us of making the history we want and a liberal globalization which betrays one of the components of democracy, namely our right to be able to control our destiny.***

In Europe, it was thought that borders were vanishing, but barbed wire is reappearing. Stalin and his ilk, through the fear that they inspired, were fathers of Europe, and the Marshall Plan to support the reconstruction of Europe in 1948 was also one of the driving forces building Europe. In contrast, the so-called Islamic State and migrants are factors of division, and there are those who wonder whether this post-national identity which some aspired to has not been a failure at the European level. The various European nations are merely variants of a common mould, but they proclaim their identity.

Throughout the world, globalization, which was supposed to wipe out differences, is exacerbating the sentiment of identity, whose spokesmen are populist parties. At the time of the fall of the Berlin Wall, some, like ***Fukuyama***, believed in ***"The end of history"***, but today we can fear a return to more sombre times, as religion is reasserted as a factor of conflict, while nostalgia for empires - Chinese, Iranian, Ottoman and Russian - is stoked by the leaders of these major countries. And in each case, the casualties of growth will be drawn to these incantatory statements.

This note will not be about politics, but about the economic consequences of these temptations to withdraw. We shall try to determine the consequences for stock markets. The general idea is that while in an initial stage of development (Germany at the end of the 19th century, China, the end of the 20th century), protectionism was able to help countries establish their economic strength, conversely, protectionism chosen as a risk-averse withdrawal would increase production costs, cause a resurgence of inflation, impoverish populations, adversely affect corporate margins and entail a sharp rise in interest rates and an equity market collapse.

1. THE LESSONS OF THE PAST:

1.1 – BETWEEN ADVOCACY OF FREE-TRADE AND INVOCATION OF PROTECTIONISM

1.1.1– THE INITIATORS OF FREE-TRADE

Without going back to the Medici, Jacques Cœur or the Fugger family, we shall mention that in England, the Prime Minister ***Robert Peel*** initiated free trade in 1842 to reinforce the country's dominance, and abolished the Corn Laws in 1846. In France, Napoleon III signed a free-trade agreement with England in 1860. In recent decades, globalization has permitted the rapid development of emerging economies which have chosen export-oriented models, and many countries have benefited from global savings flows, because in an open world the savings/investment balance is defined on the global scale. But ***Bairoch*** has clearly shown that the most open economies have not always posted the strongest growth.

1.1.2 – PROTECTIONISM, BETWEEN DEVELOPMENT AID AND TEMPTATION IN TIMES OF CRISIS

The German economist List maintained, in the 19th century, that in an open world, developmental inequality serves the strong and does a disservice to the weak. He believed customs protection was necessary to facilitate rapid growth in highly productive industries. Protectionism, on a temporary basis, can consolidate long-lasting competitiveness. But, and the nuance is important, protectionism cannot save declining industries.

Temporary protectionism can be a means of conquest and not a means of withdrawal. And the fantastic growth of the German economy in the late 19th/early 20th centuries is an indisputable illustration of this. Before Germany, American industry was boosted by the customs tariffs erected as a barrier by President Grant's administration between 1869 and 1877.

However, even in England, the home of free trade, in around 1887 economic difficulties and competition from the German iron and steel industry led the Prime Minister ***Joseph Chamberlain***, previously a liberal mayor of Birmingham, to encourage consumers, in vain, to prefer products made in England to German products. Chamberlain endeavoured to make a distinction between free trade and fair trade. Again in England, the 1929 crisis saw the end of free trade, because in 1931 "Imperial Preference" was to be adopted in the Commonwealth. And in the 1930s the United States decided to implement the ***Smoot-Hawley*** Tariff Act.

1.2 — THE GROWTH OF INTERNATIONAL TRADE

Globalization involves several aspects: business-government links, the international division of labour, sovereignty issues, and relations between states.

1.2.1 —THE GROWTH PATTERN

Since the establishment of the General Agreement on Tariffs and Trade (GATT) in 1948, and its replacement by the WTO in 1995, economies have become more intertwined, a trend favoured by the invention of the container, and low transport costs.

Since the end of the 1960s, global trade has increased tenfold, while GDP increased fourfold and the population doubled. This trade development continued even during phases of sharp increases in transport costs, e.g. between 2003 and 2008 when the oil price reached $150 per barrel. The reason for this is that the products most dependent on transport costs are often essential products. Examples are industrial metals and agricultural products which, according to a 2008 study by CIBC, represented 10% to 30% of the products' value.

This globalization phase facilitated the emergence of a few large countries such as Brazil, and the "open" countries of South-East Asia grew more rapidly than less open countries. China's entry into the WTO in 2001 and Russia's entry in 2012 gave fresh impetus to globalization and opened up new markets for investors who were able to offshore production units there.

Multinational firms, of which there were 37,000 at the start of the 1990s and 82,000 in 2008 (according to the UNCTAD), play a growing role and generate one-third of global trade. Forbes stresses that, whereas in the 1960s 60% of the leading 2000 companies were American, this percentage is now merely 25%, because the number of players in this globalization is far greater.

The growth of the internet has been a powerful driver for globalization by facilitating the exchange of information within groups and by opening up protected sectors to international competition.

That said, although between 1990 and 2008 the economies most deeply involved in the global specialization chains experienced faster export growth rates than others, there has been a slowdown. Between 2012 and 2014, global trade growth was only 3%, in 2015 it did not exceed 1.7%, and foreign direct investment, as a percentage of GDP, fell from an average of 12% per year between 2000 and 2007 to less than 9% per year between 2009 and 2013.

In the United States, hampered by a strong dollar and weaker global demand, exports held back growth. In Japan, despite a weak yen, exports have hardly increased, because in recent years many companies offshored their production units and Asian demand has slowed.

The causes of this weaker trade growth are the fall in commodity prices, the evolution of the Chinese model, weaker growth in emerging economies and a trend to onshoring of some production units. After a seven-year economic cycle of global growth, of long duration but weak intensity, the proponents of protectionist measures are gaining votes while the heralds of free trade are losing influence.

1.2.2– THE GROWING INFLUENCE OF EMERGING COUNTRIES: BETWEEN COOPERATION AND COMPETITION

Trade growth: At the start of the 2000s, emerging countries were involved in 45% of trade, versus slightly more than 60% recently. Likewise, they now attract 30% of foreign direct investment (World Bank).

The expansion of South-South trade: From being production workshops for Western firms, emerging countries have become competitors and increasingly trade with one another. China, for example, has become the leading trade partner of Brazil and many emerging countries and, thanks to the 2014 creation of the South-South Development Bank, cooperation between the countries of the South is destined to gather momentum, with the financing of sustainable development projects and infrastructure projects.

The rivalry persists: It is true that Europe has two of the five permanent seats on the UN Security Council though it represents not even 7% of the world's population. But, politically, when considering a reform of the UN Security Council, Mexico and Argentina are opposed to the entry of Brazil, just as Nigeria and Egypt block any admission of South Africa. Economically, China is endeavouring to protect itself from competition from the less developed countries, and Brazil does not hesitate to levy high duties on imported vehicles not produced in the Mercosur.

Let us consider Africa. The opening to globalization is both a cause and a consequence of the decline in conflicts and it has caused famine to retreat. The continent has benefited from the Chinese attraction to the mining of raw materials and American efforts to attain a certain political stability. But, after about fifteen years of opening, it must be recognized that half of the 54 African countries still have a per capita GDP of less than $1000 and that beyond the favoured coastal regions infrastructure is weak, while corruption and obstacles (e.g., Bolloré's plan for a railway line in West Africa) persist. The very high GDP growth figures of oil-producing countries such as Angola and Nigeria are offset by shortcomings, the lack of diversification of these economies. The flattering figures for mobile phones, estimated to number 700 million on the continent, are offset by widespread poverty. The figure of a middle class population estimated at 300 million is misleading, given that two-thirds of the population live on only $2 to $4 per day, and the favoured third $4 to $10 per day. Nothing to boast about. The continent is often presented as under-populated, with less than 40 inhabitants/km^2, but the population is growing rapidly, and will double to 2 billion by 2050. This adversely affects the savings ratio of these countries, and hence their capacity for investing in infrastructure. Although mining production has expanded, the often embryonic manufacturing sector is still weak. One solution would be for the Chinese to offshore production units to Africa. Lastly, we note that very few African countries are industrialized: the Island of Mauritius, South Africa, Egypt, Ethiopia and Morocco.

1.2.3 — THE PREDOMINANCE OF REGIONAL TRADE

Multilateral negotiations, involving 160 countries, have no future, but bilateral agreements, of which more than 600 were reported to the WTO in 2015, are increasingly numerous and can be interpreted as the search for a "second-best optimum" beloved by Pareto.

Even the United States, an advocate of multilateralism, has gone down the bilateral path, first with the signature of the NAFTA agreement (Mexico, Canada, United States), then, in October 2015, the Transpacific Agreement bringing together 12 countries with plans to abolish 18,000 customs duties. Likewise, the agreement currently being negotiated between Europe and the United States aims to create a vast market of 820 million consumers. The negotiations concern agriculture, non-tariff barriers and intellectual property, but exclude defence, healthcare and the audiovisual sector. The Americans, having a deficit of $5bn to $7bn per year in their agricultural produce trade with Europe, want Europe to lower duties on agricultural products, which are generally two times higher than on manufactured goods.

Of all the regions, it is Europe which is the most integrated, because 70% of trade takes place inside the region, to be compared with 50% on the American continent for the NAFTA members and 50% for Asian countries, because Japan and South Korea do a lot of trade with China, while China is endeavouring to revive the Silk Road. Only the countries of the Africa-Middle East region trade little with one another, at only 12%.

1.2.4— THE INTERNATIONAL DIVISION OF LABOUR

<u>The end of "Made in"</u>:

In the 20th century, international trade concerned goods exports. Gradually the aim was to optimize the manufacture of those goods by organizing global value chains, and at present, according to the WTO, one-third of goods trade consists of semi-finished goods. For some products such as telecommunications equipment, the import content of exports may even exceed 80%. Formerly, in accordance with the principles of Ricardo, a country specialized in producing the goods for which it had a comparative advantage. Nowadays production is segmented, with several countries sharing production of the same good. For example, the manufacture of an Airbus plane may involve more than 40 countries. This is what is called the IDPP, the international division of production processes. This fragmentation of production is facilitated by the fall in transport costs, and the ease of information transmission. The value added upstream in research and downstream in marketing often remains in OECD countries, while assembly is offshored. Accordingly, the "Made in" indication is no longer relevant and the measurement of global trade in value terms takes into account a lot of double or triple counting. The value of a given Airbus can be booked at each border crossing, with the addition of the value added produced in each country. But, while few dispute the economic advisability of an international division of labour, a growing number of voices are being raised against the social cost of offshoring and plant closures.

The loss of significance of the trade deficit concept:

An import of components is beneficial if it permits a productivity gain. In the past twenty years, the import content of exports has increased from 20% to 40%, thereby invalidating the conventional measure of exports. A value added approach is required, and the US trade deficit with China would thus be reduced by one-third (according to the OECD).

More fundamentally, the deficit no longer necessarily reflects a competitiveness problem but may reflect excessive consumption relative to the savings ratio.

2. THE PRESENT: BETWEEN SLOWDOWN AND CONTRACTION.

Faced with globalization, some fear governments' loss of sovereignty, while others would like to see the emergence of a world government. But this is a rapid view, because with each economic crisis, each international political crisis, and each social crisis (e.g. migration), it is to the government that all eyes turn for solutions.

2.1 — THE COMPLAINTS

2.1.1 — EXCESSIVE INTERNATIONAL CAPITAL MOBILITY

Notwithstanding the benefits of deregulation of capital flows, there is criticism of the excessive mobility of this capital, with governments losing tax revenue due to fiscal optimization schemes. There are also memories of the Asian crisis of the 1990s, when countries agonized as their currencies collapsed.

The emerging countries, with a current-account deficit, hence a shortfall in savings, depend on international capital and are exposed, as in 2014/15, to sudden capital outflows caused by the rounds of monetary tightening by the Fed, which can precipitate them into crisis.

Set against the benefits of global commodity markets, some critics cite speculation and erratic price fluctuations, especially in the case of food staples.

2.1.2– DECLINE IN THE NUMBER OF WORKERS IN INDUSTRY AND WAGE STAGNATION

The analysis of globalization as beneficial for economies is opposed by a social approach which emphasizes the impoverishment of the middle classes and the difficulty of finding stable jobs again for certain categories disadvantaged by the decline of industry.

In the United States, industrial production in volume terms is higher than at the start of the 1990s, but in the space of 20 years, from 1991 to 2011, the number of jobs in manufacturing industry decreased from 18 to 11 million, pressure on wages and losses of purchasing power have been more significant there than in other sectors, and the weight of industry has declined as a percentage of GDP.

In France, the situation is the same. Manufacturing employment decreased from 26% of total employment in 1980 to 12% in 2011, i.e. from 5.1 million to 3.1 million jobs.

At the same time, China, Mexico, South Korea and many other emerging countries created manufacturing employment, benefiting from lower wages and social protection and less stringent environmental constraints.

There are two significant issues here: offshoring and wages.

<u>Between offshoring and onshoring</u>:

The diagnosis is inevitably mixed. It is true that the textile sector destroyed many jobs, 60% between 1970 and 2003 in the G7 countries, but the sector also developed high-value-added jobs and other industrial sectors, open to international competition, created or maintained jobs. Examples are the chemicals, pharmaceuticals and food processing sectors, which sometimes give priority to market proximity.

More fundamentally, globalization is far from being the main cause of job cuts. Some studies estimate that less than 5% of manufacturing redundancies are due to offshoring, while others assess the cost at 10%. So, in any case, the percentage is low.

The main factors impacting employment have been productivity gains, internal restructuring, the mechanization of production lines, the introduction of new technologies, outsourcing of certain functions now classified in the service sector, and weaker growth in demand for manufactured goods in OECD countries, or even bankruptcies.

To be exhaustive, we may add that offshoring can also affect certain service jobs, such as call centres and financial services.

Finally, remember that in the past twenty years the employment rate has increased in the OECD, providing proof, if proof were needed, that globalization is not a curb on employment.

In recent years, there has been onshoring, the repatriation of production operations, because costs have risen in many emerging countries and there has been a fall in labour costs in Southern Europe, a reduction in energy costs in the United States, and faster development of robotization and productivity gains in OECD countries than in emerging countries. And it may be imagined that progress in 3D printing will increase this advantage.

In Brazil and India, as in other countries, there is a shortage of senior managers and wages are often in line with, or even higher than those in OECD countries, so their advantage is not obvious. In China, in recent years, wages have increased faster than productivity and the yuan, stable against the US dollar, has appreciated sharply against emerging-country currencies.

But although many emerging countries have lost competitiveness, that does not necessarily mean a loss of appeal, because the rise of the middle classes is opening up markets and because, even in China, certain regions in the hinterland of the country still have low wages.

Wage stagnation and increasing inequalities:

The fundamental question is whether globalization, the clash between high-wage countries and low-wage countries, will result in a fall in wages and widening inequalities. Two points should be noted. Firstly, wage comparisons between countries must of course be adjusted by the comparison of their respective productivity levels. Secondly, for low-skilled jobs exposed to global competition, wage declines have been noted, with the extreme example of the trade union endorsement, given in 2008, to the halving of wages for newcomers on a Ford assembly line in the United States. But on the scale of a country, this concerns a small percentage of jobs.

The question mark surrounding wages comes within the far broader framework of the fall in the wages/value added ratio observed in the major countries since the 1980s, i.e. before and independently of the acceleration in globalization. The low-skilled suffer greater insecurity of their working conditions and are sometimes forced to choose poorly paid part-time jobs, while the skilled maintain their purchasing power. In this light, the encouragement of education and vocational training is understandable.

As regards inequalities, although between 1990 and 2008 the share of the wealthiest 1% in total US income increased from 13 to 18%, that is due less to globalization than to the increase in investment income as a percentage of household income. This is basically a wealth accumulation issue, a consequence of the sharp rise in real estate prices and equity markets in the past thirty years.

The resentment of those left out is fertile ground for populism. René Girard's theory of the "scapegoat" had not found so many illustrations in a long time: the banks accused of fuelling speculation, migrants suspected of spreading criminality and terrorism, and the Chinese charged with unfair competition, yesterday because of an undervalued yuan and today as exporters of deflation.

2.2 – ATTITUDES OF WITHDRAWAL

2.2.1 – IN DEVELOPED COUNTRIES:

The stigmatization of China:

Not surprisingly, there has been a revival of Chamberlain's distinction between free trade and fair trade. China is criticized, its state capitalism is accused, the liberties taken with the concept of return on investment are denounced, and there are complaints about the currency, long undervalued.

Probably these accusations partly reflect jealousy of an economy that, between 1994 and 2015, was able to increase its share of global GDP from 2.1% to more than 13% (even more on a purchasing power parity basis), its share in manufactured goods exports from 3% to 18%, and above all was capable of reducing the percentage of the poor (on less than $1.25 per day) from 85% to 10%.

The political reaction:

Left-wing populists stress the divide between high earners and the disadvantaged, while right-wing populists exploit divergences of identity, religion and nationality.

In the European Union, Poland, despite having been a big beneficiary of European manna, is being seduced by ultra-conservative sirens.

In the United States, Donald Trump, a nationalist and isolationist, wants to regulate international trade and reject the Transpacific Agreement. Some people downplay the risk, giving a reminder that it is Congress that has the power to regulate international trade, but there is nevertheless a threat to free trade and Trump has probably reflected on the saying by ***d'Alembert that "La politique, c'est l'art de tromper les hommes en leur laissant croire que l'on travaille à leur bonheur" (Politics is the art of misleading people by making them believe that you are working for their happiness).***

2.2.2 – IN EMERGING COUNTRIES:

Many emerging countries have become interventionist in recent years. In China, for example, the presidency of Xi Jinping shows several of these characteristics: political, by taking back control of civil society, monetary, with a determination to keep control over the yuan by breaking the back of speculation, and industrial through the management of overcapacity in numerous sectors, notably steel, shipbuilding and paper.

3. THE FUTURE:

BETWEEN COMPLEXITY, FEARS AND HOPES.

Governments proclaim their support for free trade but do not hesitate, if necessary, to commit numerous infringements. Let us analyse these insidious protectionist measures and conclude by noting that there has been no return to the 1930s and there are still promising signs of liberalization.

3.1 – INSIDIOUS MEASURES

Such measures concern certifications, exchange rate policy and the determination to protect national firms.

3.1.1 – CERTIFICATIONS

The GATT, then the World Trade Organization (WTO), have been able to remove numerous tariff barriers, and the residual customs duties are low: for non-agricultural products, in the major OECD countries, between 2.5% and 4.2%. The WTO added two subjects, intellectual property and services.

While previously tariff negotiations were mainly intergovernmental, nowadays the regulations on standards involve a very large number of stakeholders, companies or other organizations and are therefore complicated to conduct. At present the subjects of discussion are not so much customs duties as certification, not so much quantitative measures as qualitative protective measures, not so much closing borders as "economic patriotism". The Buy American Act is a reality and President Obama did not hesitate to slap high duties on tyres manufactured in China. To this can be added temporary safeguard measures if a sector is threatened by foreign competition, export subsidies, or even dumping, a measure that is commonly used especially since it remains hard to prove.

Regulations are increasingly numerous and can be based on health and environmental standards or interests related to national defence, or even social requirements if an emerging country does not apply the labour standards in force in Western countries (labour regulations concerning children, for example). While few industrial groups express reservations regarding harmonization of standards which lowers costs, a growing number of consumers are taking up arms against insufficiently protective standards. Consider the debate on GMOs and the regulations on bioproducts. This is one of the sticking points between Europe and the United States in negotiating a new agreement.

3.1.2 – THE POLICY OF WEAKENING CURRENCIES

The Louvre Accord of 1985 by which central banks were to be entrusted with coordinated management of currency volatility has been forgotten. Like in 1931, when the Bank of England allowed the pound sterling to fall heavily after stopping the currency's convertibility into gold, the sluggishness of growth at present is leading numerous countries to resort to the monetary weapon.

One of the "Three Arrows" of the Japanese Prime Minister, Shinzo Abe, was the depreciation of the yen. Mario Draghi has the same goal, and the ECB has been able to push down the euro from 1.60 to 1.10 against the US dollar. The Swiss National Bank had the same ambition when in January 2015 it chose to adopt a negative official policy rate to stop the appreciation of the Swiss franc.

And these three recent examples do not exhaust the subject, which explains why these policies have lost effectiveness: in Japan, the recent adoption of negative interest rates was unable to trigger another round of depreciation of the yen, which is now higher against the dollar than last December. In Europe, the euro is now higher against the dollar than before the liquidity injection initiated in March 2015.

Fundamentally, currency depreciation designed to redefine comparative advantages is merely an expedient, it succeeds merely in exporting deflationary pressures to the other countries and in no way solves the structural competitiveness problems of economies, and even gives them no incentive to reduce them. Although the yen has lost more than 30% of its value since 2012, Japan's exports have hardly benefited from this, because its firms have many production units abroad.

Other, structural factors prevail over currency manipulation. For example, quality: even when the euro was strong, Airbus gained market share against Boeing.

3.1.3 – THE WILL TO PROTECT NATIONAL INTERESTS

The paradox is that the removal of customs barriers is matched by an assertion of national interests. Governments can block foreign takeover bids on groups judged strategically important. Remember the British preventing the Kuwaitis from taking over control of BP, while more recently, in 2006, the Americans blocked an acquisition by Dubai financiers of the Port of New York. And there are many other examples. More generally, the substantial expansion of Chinese foreign direct investment (FDI), from $109 billion in 2015 to $106 billion in the first quarter of 2016 alone, worries some analysts. For example, we can see a Japanese government prompt to reassert the role of the famous MITI, the Ministry of Industry, to better combat Chinese-style state capitalism, to promote the establishment of large Japanese groups, help them export and boost the development of key sectors such as robotics and new energies.

The idea is that, in an open world, governments and business can have converging interests. Governments should provide companies with external cost savings, ensure that real estate prices do not handicap investors, invest in infrastructure, and invest in education and research. Companies, thus attracted, will create jobs. This recommendation applies to the European Union, because its research spending as a percentage of GDP, at 1.8%, is less than in the United States and Japan.

3.2 – NO RETURN TO THE 1930'S AND STILL PROMISING SIGNS

3.2.1 – THE CAPACITY TO CUSHION CRISES

Widening inequalities and job insecurity are partly a result of globalization, or at least are perceived as such by political opponents. The 2008 crisis was profound, and some economies have still not regained the GDP level of that time, but the situation is not comparable to that of the 1930s, when GDP declined by 30%. Nowadays the welfare state, with its unemployment benefit, health insurance and pension components, can cushion the effects of the crisis, especially in Europe. Nowadays, unlike in the 1930s, international bodies such as the IMF, World Bank and WTO, not to mention central banks, have the capacity to act. Admittedly, in the United States the middle classes have seen their purchasing power eroded in the past twenty or even thirty years, but this is by no means comparable with the 30% unemployment rates, deprivation and misery of the 1930s.

3.2.2 – REASONS FOR OPTIMISM

Undoubtedly, there is weaker growth in international trade, but let's not be too pessimistic. Given the extent of global specialization, it seems impossible to imagine an end to the globalization process. Economies are intertwined, and in manufacturing industry the value chain is substantially transnational.

<u>Some goods are not substitutable</u>: Whether it be agricultural commodities, such as cocoa or tea, or metals such as copper, a number of products require trade.

<u>Free trade still has many supporters</u>: The agreement signed recently between the 10 ASEAN members, representing more than 600m inhabitants (Indonesia, Malaysia, Singapore, etc.), is set to strengthen the integration of this region. President Obama has signed the TPP, the Transpacific Agreement between 12 countries of the Pacific, but it is true that it has not yet been ratified. Europe is negotiating with India.

<u>Secondly, new chapters are being written</u>: Here we are thinking of global tax harmonization and possible limits on tax optimization schemes, with the ambition of establishing fair treatment. The aim is not confrontation but a recognition of mutual interests. Governments should avoid behaving like Theodore Roosevelt, who had undertaken to break up monopolies, such as Standard Oil and others, because they cannot get by without multinationals. Between evading corporate taxes and submitting to a 40% rate, possibly the rational choice is that of the Cameron government, reducing corporate taxes.

<u>Lastly, the expansion of FDI</u>: Since the early 1980s, foreign direct investment has increased four times faster than GDP, and there has even been an increase in the amount of foreign investment performed by firms from emerging countries, notably Chinese firms. Incidentally, this is one of the reasons for the fall in Chinese exports, even though there is a significant impact of falling commodity prices.

CONCLUSION:

***"Light always projects shadows somewhere", Bachelard*.**

We began with Shakespeare, let's end with Bachelard and note four conclusions:

1. Further globalization or a step backward? "Happy globalization", to adopt a trendy expression, has never existed, but conversely, a deepening of this globalization is a tricky matter. Multilateralism is no longer, and this makes one think of a saying by Churchill in his Memoires: ***"Decided only to be undecided, resolved to be irresolute, adamant for drift, solid for fluidity, all-powerful to be impotent"***. But bilateralism offers interesting prospects. The era of quantitative achievement, lowering customs duties, was easier to negotiate than the era of qualitative measures, standards. The signature of the Trans-Pacific Agreement is significant, while the TTIP negotiations between Europe and the United States are stalling and falling behind schedule. The former agreement corresponds to the tradition of tariff agreements, while the latter affects politically sensitive interests at a time when the legitimacy of democracies appears vulnerable.

2. The extent of globalization is overestimated: Although global exports are equivalent to 30% of global GDP, this percentage is inflated by imports/re-exports arising from the international division of labour, and very likely net exports do not exceed 20% of GDP. While, between 1970 and 2007, foreign direct investment increased five times faster than GDP, it now accounts for just over 10% of investment. As for migration, it concerns only 3% of the global population. Although young people are assumed to be more open to the world, we discover that only 2% study abroad. Focusing on the banks, we note that their global networks have declined by comparison with the start of the 2000s. Concerning telecommunications, only 2% of calls are international. Speaking of savings invested abroad, the figure is nothing compared with the eve of the First World War when France had invested in Russia the equivalent of 20% of its GDP. So integration is weaker than we imagine.

3. The harmful effects of globalization are exaggerated: International institutions, the WTO, FMI, the G20 since 1999, and the major central banks play an effective role in the management of globalization and international crises, even though there have been many such crises since 1973. We shall add four key points:
   i. Free trade enriches nations but it is not without redistribution effects. Some profit, others are victims, and unfortunately, in a low growth environment, social mobility is less effective for finding work again.

ii. Job destruction is more the result of automation and productivity than of globalization.
iii. Globalization creates more jobs than it destroys.
iv. Widening inequalities preceded the last phase of acceleration of globalization and are the consequence of factors as diverse as the decline of trade unions, rising stock markets and hence growing assets since the 1980s.

4. <u>The consequences of a possible revival of protectionism are underestimated</u>:
The comparative experiences of 1929 and 2008 show that the welfare state combined with globalization is a better cushion than protectionism. While it is true that the agricultural protectionism adopted in 1890 did not prevent trade growth, and although the decline in trade in the 1930s was more the result of recession than protectionist measures, we are bound to fear the consequences of a revival of protectionism for businesses. If protectionism were to gain favour, the first businesses hurt would be manufacturing firms, because a global market such as aeronautics offers economies of scale. There would be an increase in production costs, hence, from the macroeconomic viewpoint, a resurgence of inflation, a rise in interest rates and, from the microeconomic viewpoint, a decline in the margins of large international companies and a steep decline in stock market valuations. So, behind the (hypothetical) appearance of full employment, across-the-board impoverishment.