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C H A N C E



**VIEW FROM DAVOS:
THE END OF
GLOBALISATION?**



— THOUGHT LEADERSHIP



The issue now is how we manage globalisation.



— JOSEPH E. STIGLITZ

VIEW FROM DAVOS: THE END OF GLOBALISATION?

Donald Trump's ascent to power, the UK's supposed commitment to "hard" Brexit, the rise of populist politics and strong leaders have made the world a much more uncertain place. In this extract from a debate we held at the World Economic Forum in Davos, chaired by Clifford Chance Partner Connie Heng, our speakers – Nobel Prize-winning economist Joseph E. Stiglitz, Pascal Lamy, former Director General of the WTO, Lord Malloch-Brown – Senior Adviser at Eurasia and former Deputy Secretary-General and Chief of Staff of the UN, Philipp Härle of McKinsey & Company and Dr Henry Cao, Professor of Finance at Cheung Kong Graduate Business School – discuss the impact of these and other shifts on the future of globalisation.

America's shifting outlook and its effect on the global landscape

With the election of Donald Trump, Joseph E. Stiglitz believes the role of the US has fundamentally shifted. Since the Second World War America has been the driving force behind the establishment of the global institutional architecture including the World Bank, the IMF and the WTO. Its aim was the rebuilding of shattered economies and to promote international economic cooperation. It also led to the creation of an international rule of law. "We've elected a new President who clearly is upsetting the international order and doesn't really believe in international law. He has said "We have to renegotiate these agreements" and clearly behind that what he meant is "If they don't renegotiate the way we want we will break it. The issue now is how to manage globalisation."

"President Trump may try to take the US into a more isolationist position but I don't think he will do a quarter of what he said he will do on trade."

— PASCAL LAMY

Pascal Lamy says that there has been a backlash against globalisation by people who believe they have lost out. "Globalisation is a big process, which is extremely efficient but which is also extremely painful." He says it remains to

be seen if the election of President Trump and Brexit represent "an accident, or whether it's a new trajectory, in which case the world order that we have had for the last 50 years is going to be reordered. If that's the case, I can't see any other winner but China."

President Trump's inauguration speech reflected the view that there are losers in globalisation. He stated that he was putting "America first", and that "every decision on trade, on taxes, on immigration, on foreign affairs will be made to benefit American workers and American families." Trump appears to be questioning the economic orthodoxy and challenging the world order.

China's growing influence

As President Trump espouses protectionist policies and an 'America first' agenda, China's President Xi Jinping used his appearance at Davos (the first ever by a Chinese leader) to defend globalisation and to make it clear that China is ready to fill the vacuum. He said: "It is true that economic globalisation has created new problems. But this is no justification to write off economic globalisation altogether. Rather we should adapt to and guide globalisation, cushion its negative impact, and deliver its benefits to all countries and all nations." And he warned: "We should commit ourselves to growing an open global economy. No one will emerge as the winner in a trade war."

Dr Cao says: “I think President Xi gave a very positive message. Globalisation benefits everyone, so China will seek a long-term, future [role in driving globalisation forward]. This is consistent with the Chinese philosophy of long-term relationships. What is important is whether China can deliver on what it says, because actions speak louder than words.”

He adds that delivery includes “making it easier for foreign businesses to enter China – to simplify the process, to lower tariffs and provide tax subsidies for Chinese investment.” And he adds: “What we want to see is detailed policies that support Chinese commitment to globalisation.”

Pascal Lamy is unconvinced by China’s stance and says: “I don’t think the Chinese are really serious when they say they are the new champions of trade globalisation.” But he is also less certain about just how far President Trump’s election rhetoric will translate into policies adding: “President Trump may try to take the US into a more isolationist position but I don’t think he will do a quarter of what he said he will do on trade.”

Lord Malloch-Brown says that whereas China is not yet ready to accept the mantle of global political leadership, it will be increasingly influential. “I think this accelerates a trend in the region where President Obama’s pivot to Asia becomes Asia’s pivot to China. It’s not that people are going to tear up agreements with the US, but a lot of governments are going to hedge and make the sensible, practical choice that the guarantor of free trade and trade routes in the region and the guarantor of stability, is primarily China.”

Global security

With the changing political landscape, there are signs of a deteriorating commitment to global cooperation as nations step back from mechanisms that underpin international security. Examples include Russia, South Africa, Burundi and Gambia withdrawing from the International Criminal Court; China rejecting the verdict of the international tribunal on the South China Sea; and President Trump stating that he will

dismantle, in his words, “the disastrous nuclear deal with Iran”, “cancel” the Paris Climate Change agreement and renegotiate NAFTA. He has already signed an executive order to withdraw from the Trans-Pacific Partnership.

“What is important is whether China can deliver on what it says.”

— **HENRY CAO**

Lord Malloch-Brown says that from his perspective of working for the United Nations, “America, for all the criticism it would get, was the indispensable partner in terms of its protection of the rule of law and human rights.” And he adds, “as it is pulling out of that role, we’re already seeing bad behaviours starting to spring up around the place – opposition figures in jail and anti-corruption processes are being stopped.”

It’s a view shared by Joseph E. Stiglitz who says: “The Panama Papers showed how pervasive corruption was – touching almost every country – and part of the anti-globalisation sentiment is the belief that there are some big players that are not paying their taxes or are engaged in corruption.”

Lord Malloch-Brown says that this environment has had a “very strange” consequence: “It’s created a new generation of ‘Caesars’ – very strong leaders who are not, in all cases, as respectful of the rules of the game as in the past. That’s as much a threat to a rule based world order as President Trump alone,” he says.

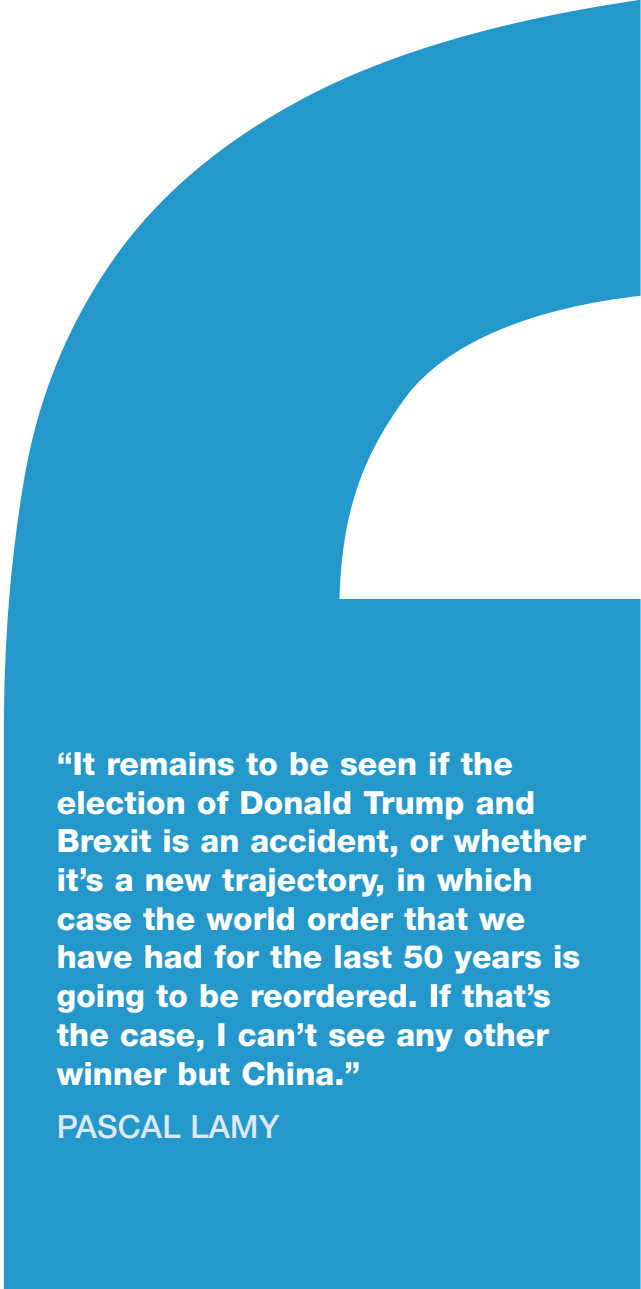
As America appears to be questioning its role in the world with President Trump declaring in his inauguration speech: “We will seek friendship and goodwill with the nations of the world – but we do so with the understanding that it is the right of all nations to put their own interests first,” there are a number of challenges for global security. “In Europe, where national budgets are already stretched, there is going to be a massive call for increased defence spending (one of President Trump’s most valid points is that Europe has enjoyed something of a free-ride on the US security blanket and NATO),” says Lord Malloch-Brown. “Given Russia’s

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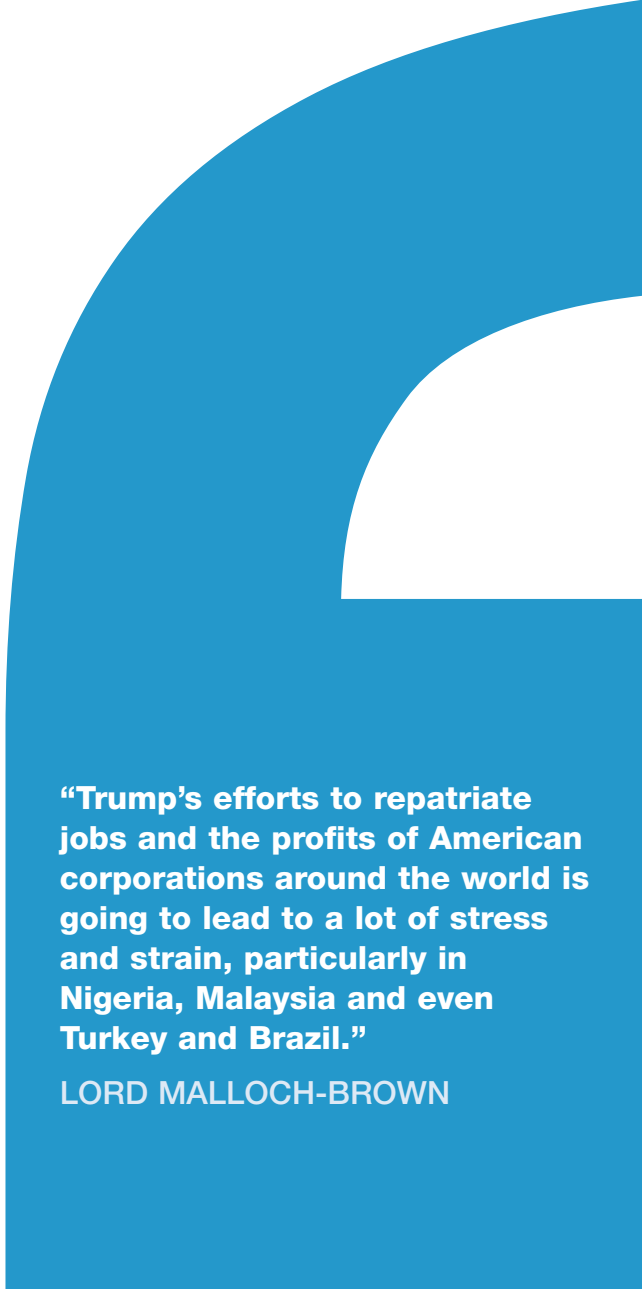
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— **LORD MALLOCH-BROWN**



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PASCAL LAMY



“Trump’s efforts to repatriate jobs and the profits of American corporations around the world is going to lead to a lot of stress and strain, particularly in Nigeria, Malaysia and even Turkey and Brazil.”

LORD MALLOCH-BROWN

“The growth of a cashless economy has many advantages. It enables the tracing of money and that is very important in the anti-money laundering and anti-corruption/tax evasion area, so I think it’s going to make a dramatic difference.”

JOSEPH E. STIGLITZ

“Banks are withdrawing from dodgy countries. As a corporate, you will need to think if you want to do business in a country “who is going to support me? With which type of bank do I want to do business? Do I want to do business with a local bank?”

PHILIPP HÄRLE



Banks are taking a much harder look at what is necessary to drive performance and of course, regulation has had an impact.



— PHILIPP HÄRLE

policies at the moment, there's no doubt that NATO and Europe are going to find themselves in the strange, unexpected place of re-arming."

Malloch-Brown also says that there will also be a huge impact on the Middle East. "There is going to be tremendous dissonance as President Trump's new policy settles down. Is he really going to do all the pro-Israel things he said? If so, it's going to be hugely disruptive to what might be natural allies for him, like Sisi in Egypt or Erdoğan in Turkey."

And he adds that in emerging markets, President Trump's efforts to repatriate jobs and the profits of American corporations around the world is going to lead to "a lot of stress and strain," particularly in markets like Nigeria, Malaysia and even Turkey and Brazil."

However, he strikes a note of caution and says: "Trump's foreign policy is a very un-formed project with people, particularly at cabinet-level who will take completely different positions to Trump. Real foreign policy is probably a year or two in gestation and, until then, the rest of the world is going to have to wait and see."

The Brexit process

The panel is also of the view that the world will have to take a "wait and see" approach to Brexit. Pascal Lamy, who is a former EU Trade Commissioner, says that it will be a "horribly complex" process that will be "long, bumpy and probably nasty."

He adds that "there is no way that all this can be done in two years." While much of the focus so far has been on issues such as tariffs on cars, Lamy says there are many other complex things that need to be negotiated such as fishery rights and airline slots. "It's like a divorce," he says, "who pays the mortgage, who pays the electricity bill?"

The impact for global business and banking

Banking is becoming less global, says Philipp Härle. Cross-border capital flows have declined considerably since 2007 and European outstanding cross-border loans have reduced by 20% over the last

nine years. "We looked at ten of the largest banks and on average they have reduced their presence since 2007 from 65 to 55 countries. They are taking a much harder look at what is necessary to drive performance and of course, regulation has had an impact," he says.

This is due to a number of factors, not least of which is that digital transformation is difficult. "If you are a bank focused on one market, it's reasonably do-able, but if you have to transform in five, ten or more countries, the complexity is enormous and quite a challenge for the global banks," says Härle. And he adds: "Financial crime and compliance issues are also having an impact. Banks are withdrawing from "dodgy" countries. As a corporate, you will need to think if you want to do business in a country: 'Who is going to support me? With which type of bank do I want to do business? Do I want to do business with a local bank?'"

Joseph E. Stiglitz suggests that part of the solution is the growth of a cashless economy. "It has many advantages. It enables the tracing of money and that is very important in the anti-money laundering and anti-corruption/tax evasion area, so I think it's going to make a dramatic difference."

What's the outlook?

While there is a popular backlash against globalisation and increasing uncertainty about America's role in the world order, our panel believes that globalisation is far from dead. Philipp Härle says the new landscape will be "manageable" and that "regional blocs will move closer together" although the "global financial system will become more fragmented." Joseph E. Stiglitz says: "The fact that we are so inter-dependent means what one country does affects others and there has to be some way of managing that inter-dependence." Professor Cao, says that China will take an increasingly important role: "These sentiments of anti-globalisation are coming from the US and Europe. I think China can replace the TPP with another agreement that starts from Asia." Lord Malloch-Brown argues that "Trumpism and globalisation are alive and well. The one needs the other."

OUR SPEAKERS

Our panel at Davos was moderated by Clifford Chance Partner Connie Heng.

Professor Joseph E. Stiglitz – Nobel Prize-winning economist and a professor at Columbia University

Pascal Lamy – Former Director General of the WTO, Chair of the Global Agenda Council on global governance at the WEF and Chair of the UN World Committee on Tourism Ethics.

Philipp Härle – Senior Partner, McKinsey & Company

Lord Mark Malloch-Brown – Former Deputy Secretary-General and Chief of Staff of the UN

Dr Henry Cao – Professor of Finance at Cheung Kong Graduate School of Business

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