# Globalization Disrupted

## [Will world trade continue to disappoint? ]

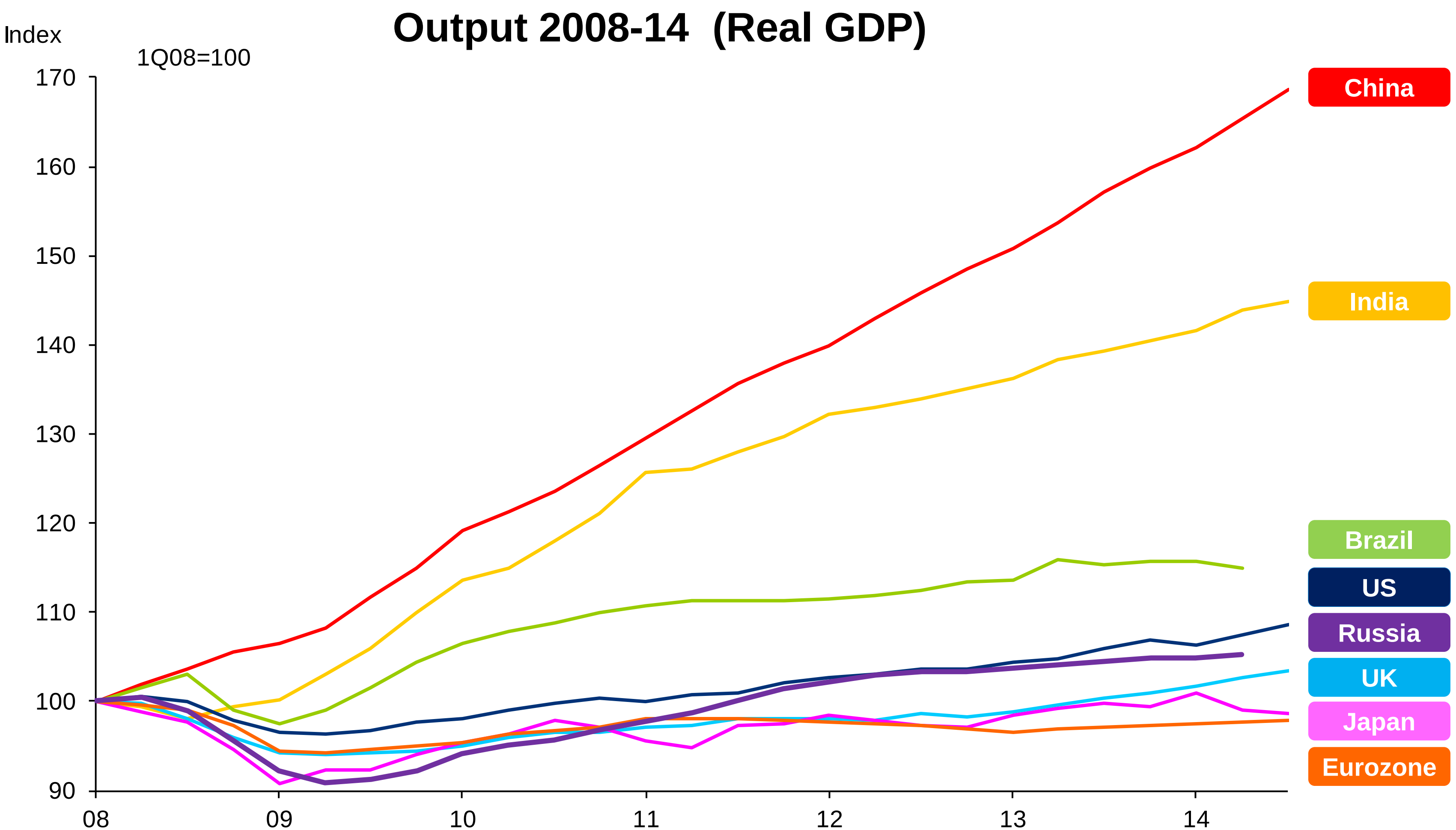

**Mark Cliffe**
Chief Economist, ING Group

December 2014

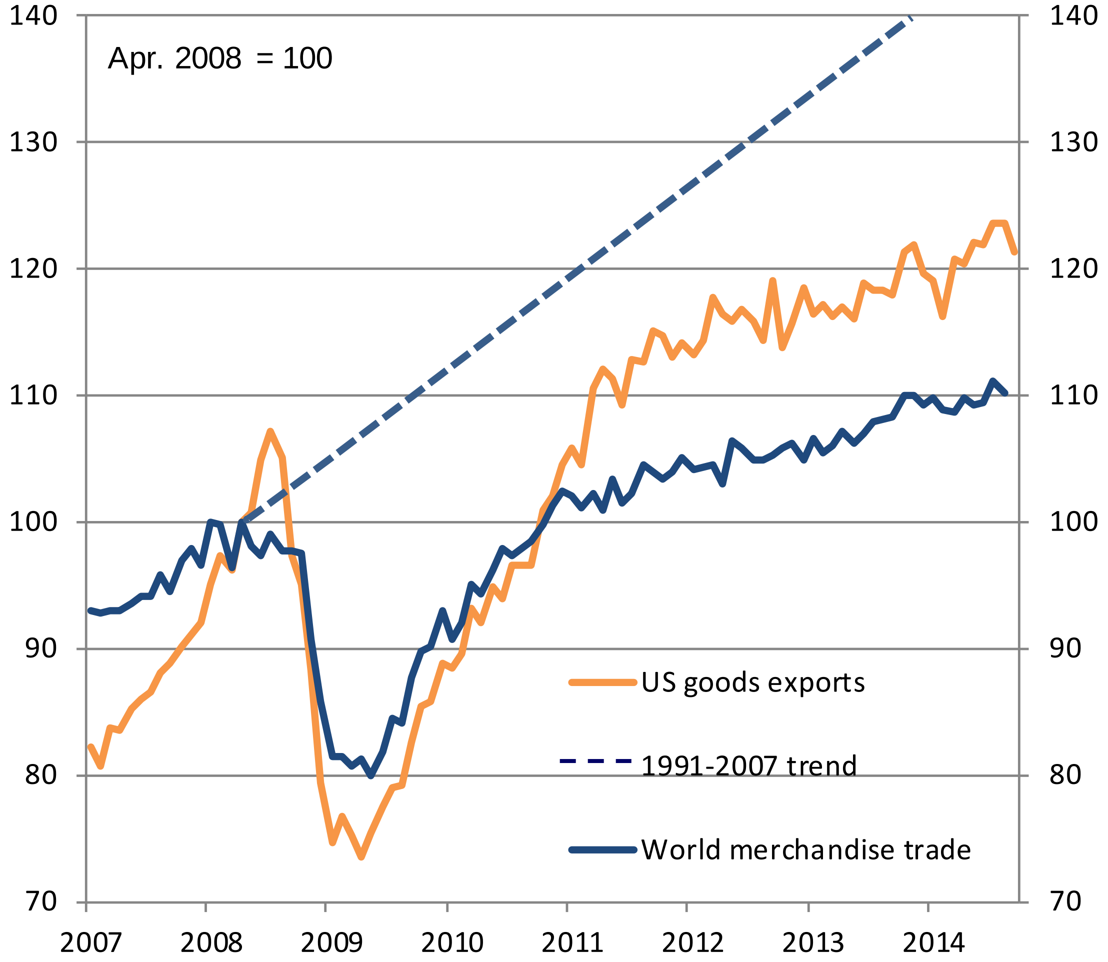
ING

# China sets the pace…

## …as the developed world struggles with the post-crisis legacy



# World trade – a partial recovery
## US exports do relatively well…

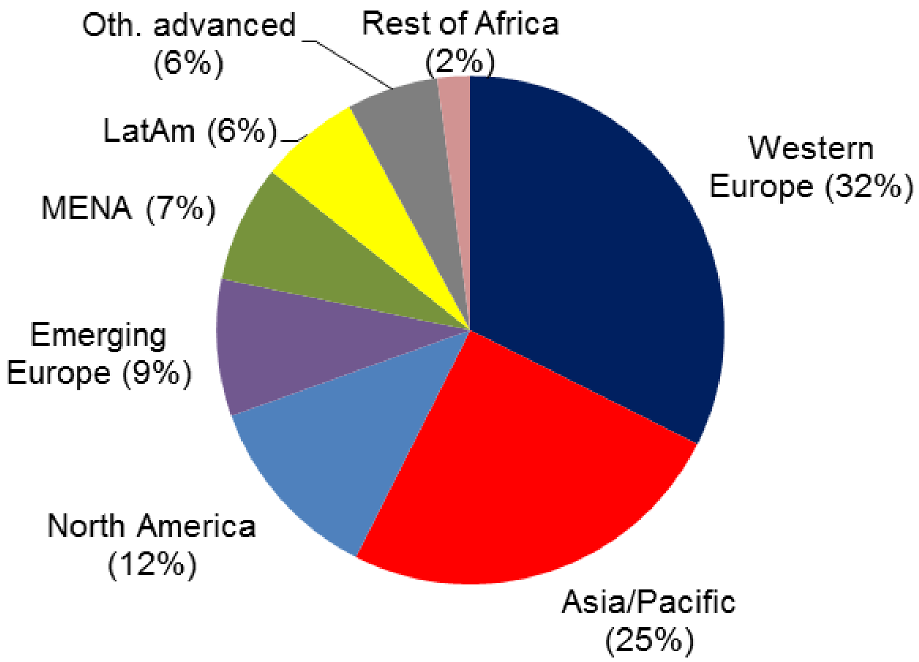



Source: CPB Netherlands Bureau for Economic Policy Analysis, ONS

# Emerging markets account for ½ of world trade

**World Merchandise Exports**

Share in world total, 2013

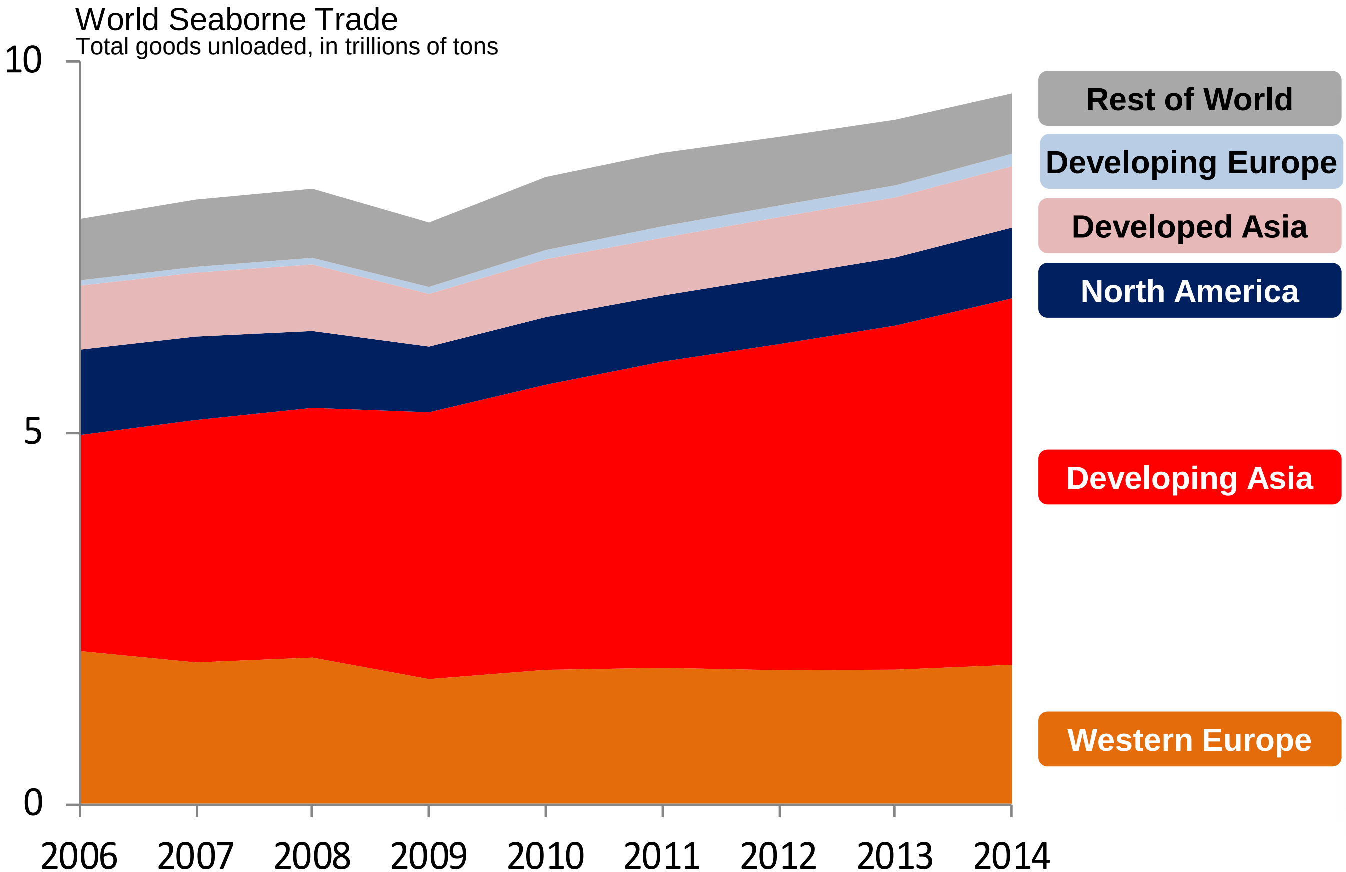



Source: OE, ING calculations.

Note: Asia/Pacific excludes Japan, North America = US & Canada, Emerging Europe includes Russia & Turkey, MENA = Middle East & North Africa, LatAm = Latin America, Other Advanced Economies = Australia, Japan & New Zealand..

# Asia dominates seaborne trade

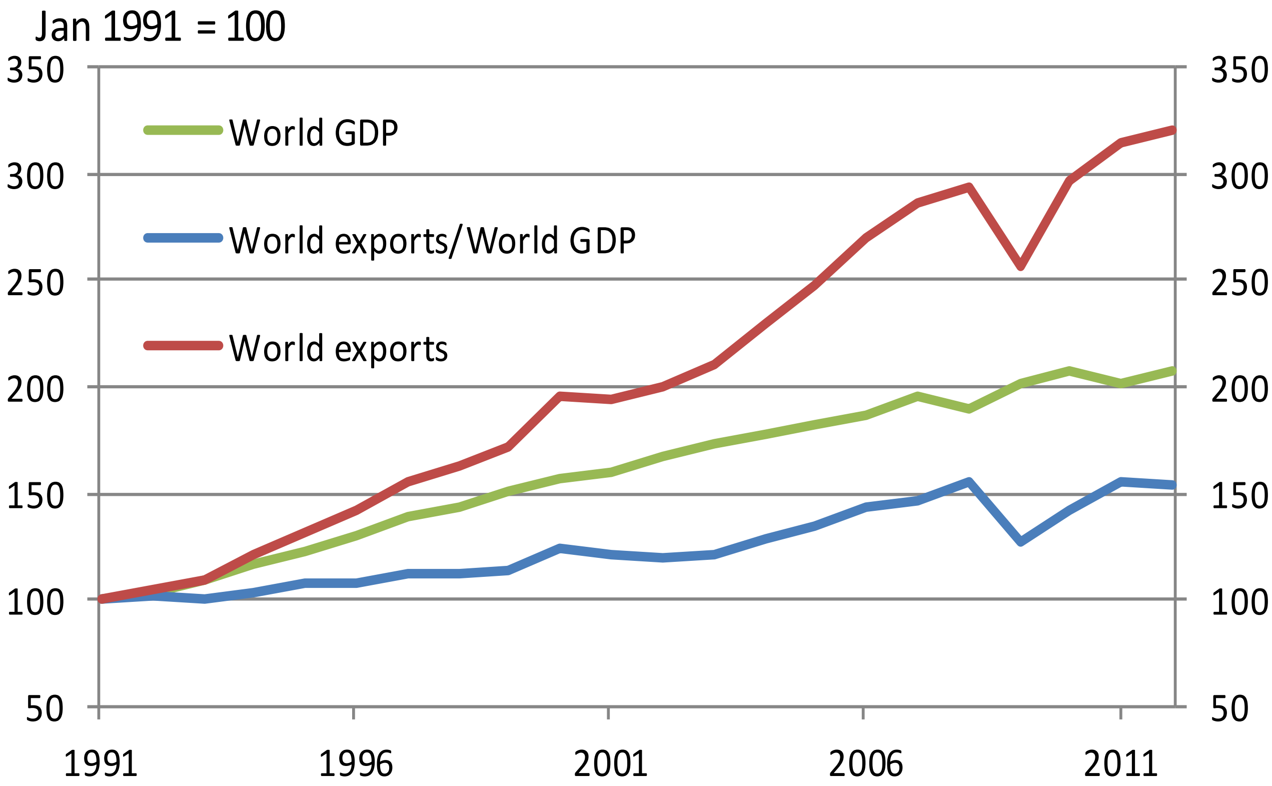
## Reflecting appetite for bulk and manufacturing expansion




Source: UNCTAD, ING estimates for 2013 and 2014

# World trade – no longer outpacing output

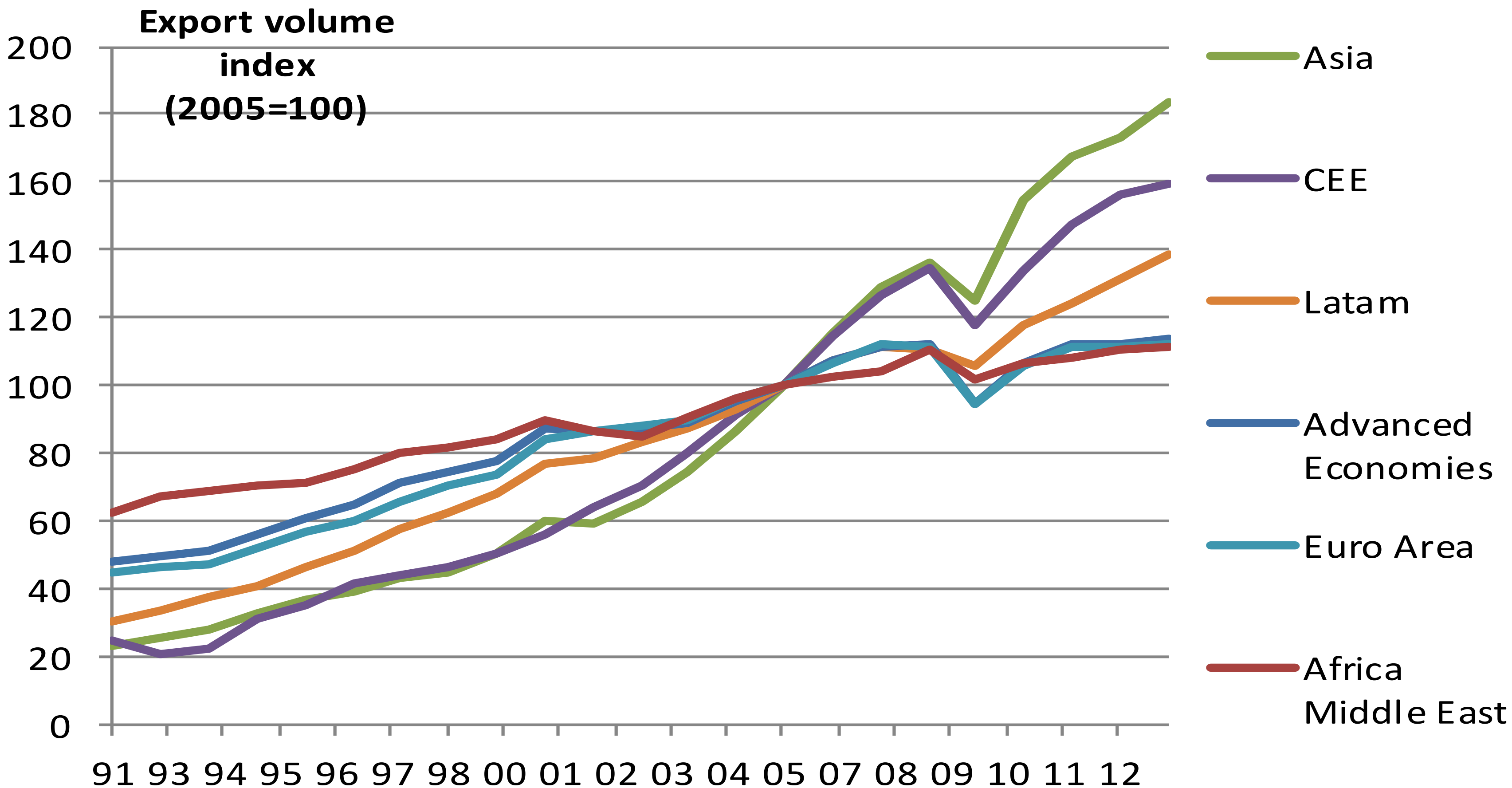
## Growth has disappointed since the financial crisis




- Prior to the global financial crisis world trade grew twice as fast as GDP…
- …its share of world GDP almost doubled in less than 20 years
- After its rebound following the crisis-induced plunge, trade is growing no faster than GDP

ING

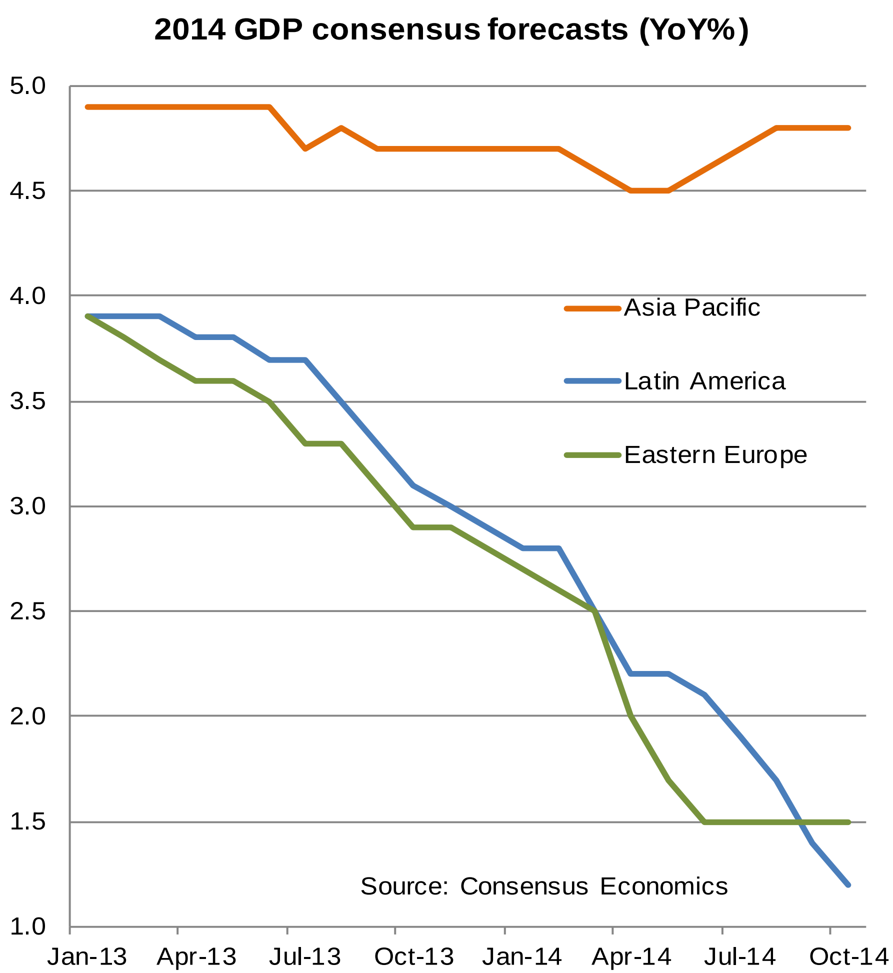
# The problem is mainly in developed markets
## Asia pulls ahead

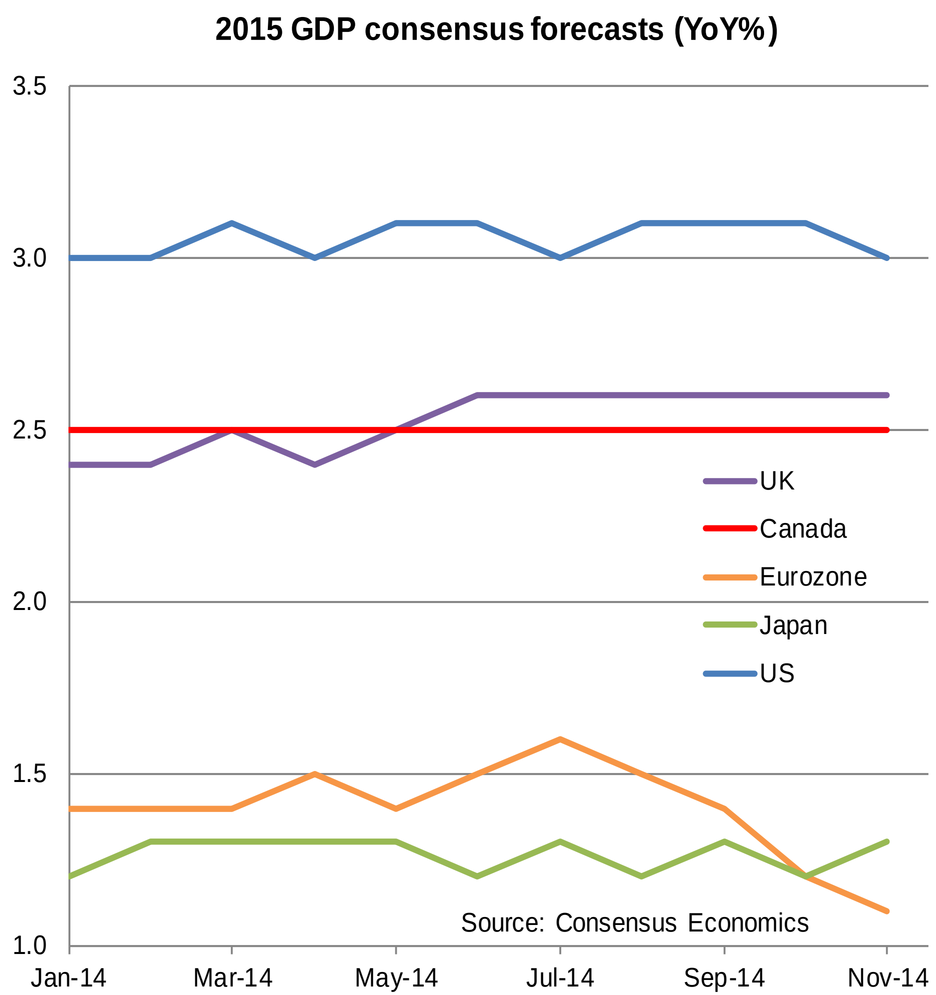



ING

# Recent slowdown in Latam and Europe

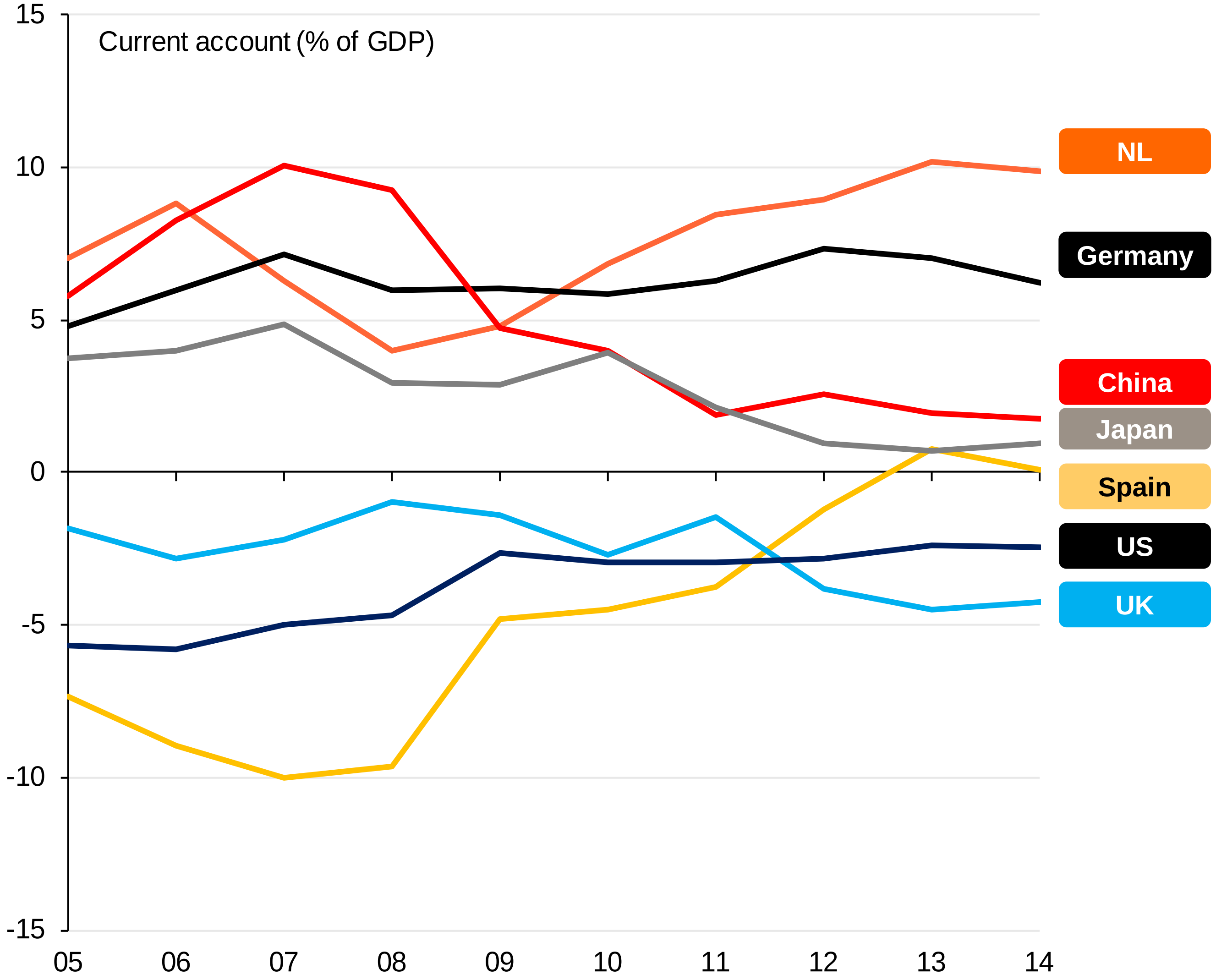
## Russia/Ukraine tension hurts CEE and Eurozone



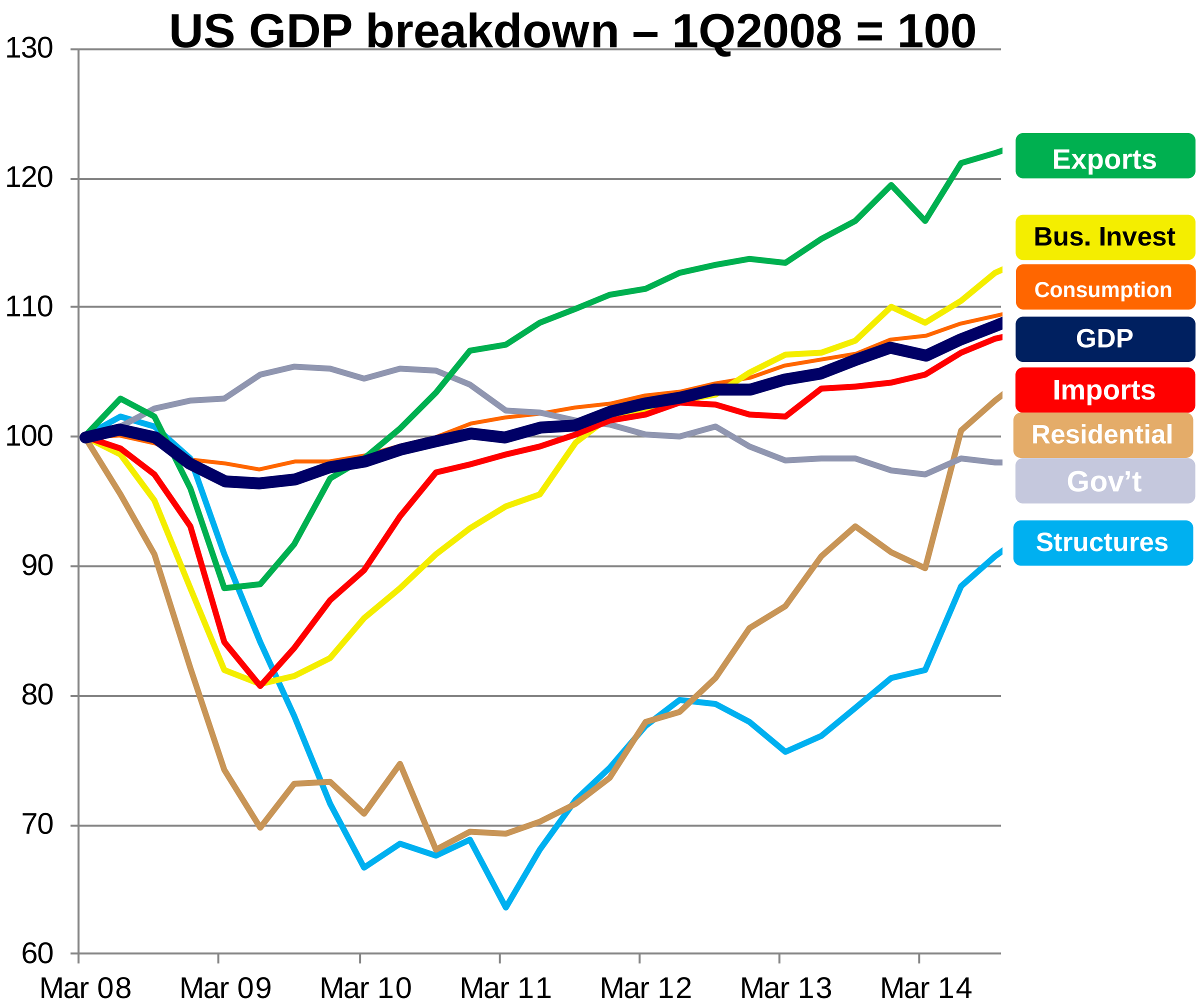



# Current Account imbalances narrow

## Deficit countries aim to be German, and China rebalances…



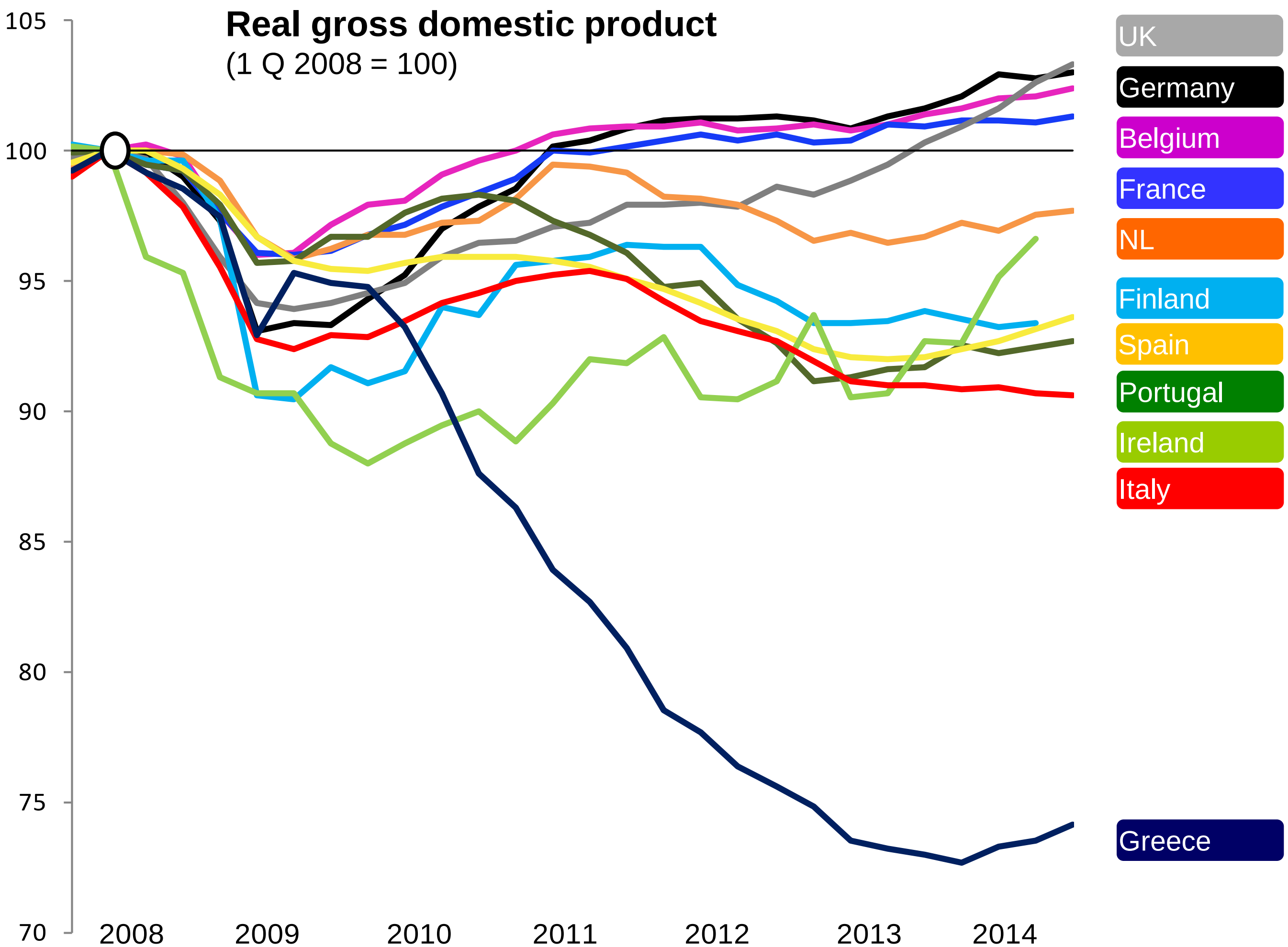
# What’s been driving US growth?



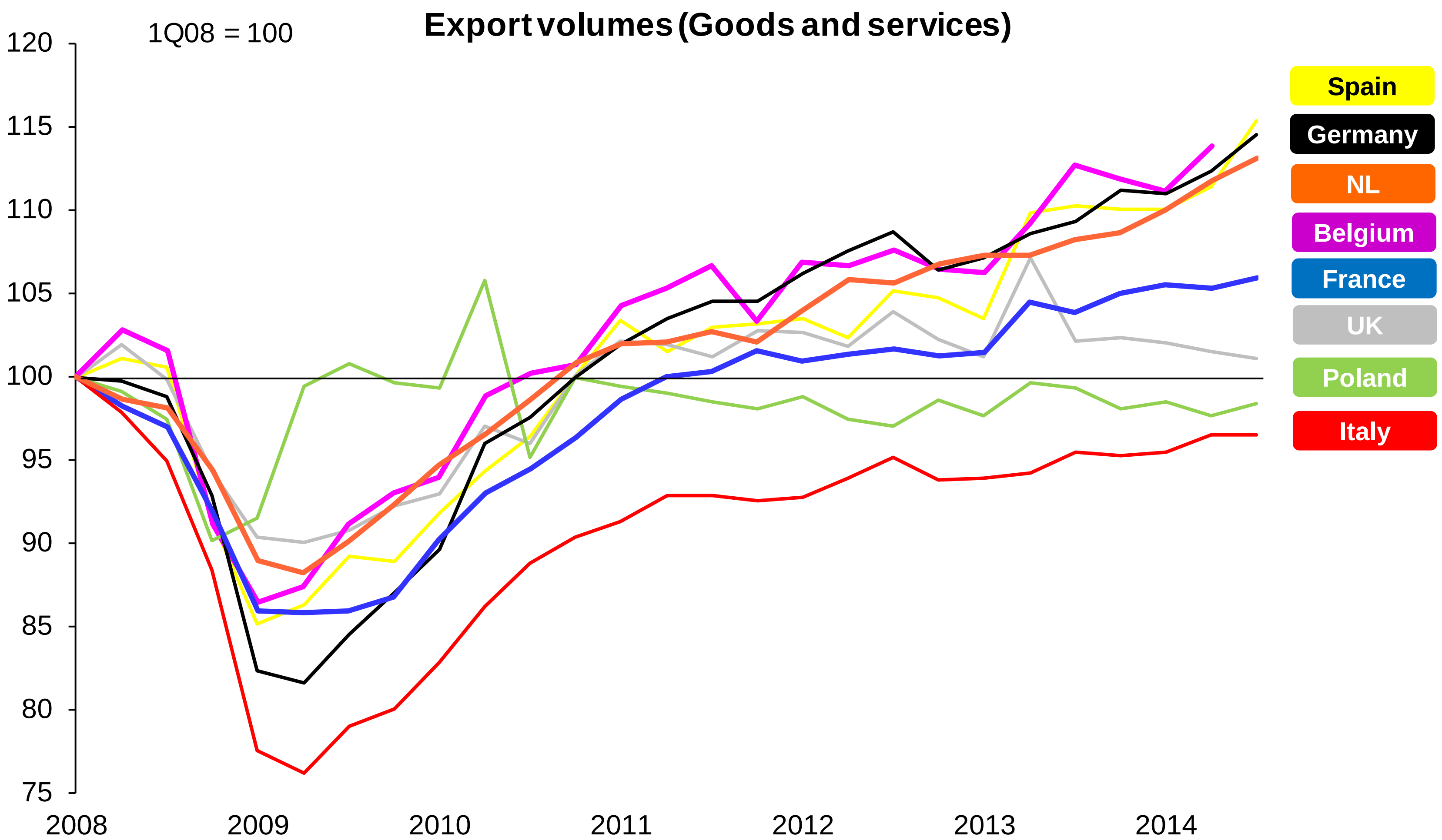

- **Exports have led the way out of US recession**
- **But consumer spending and business investment have kept pace with overall GDP**
- **Imports have not, and government spending still depressed**
- **Construction rebounding, but from low levels**
- **Inventories (not shown) have been very important**

# Eurozone recovery gains some traction

## But the recovery is still uneven and fragile



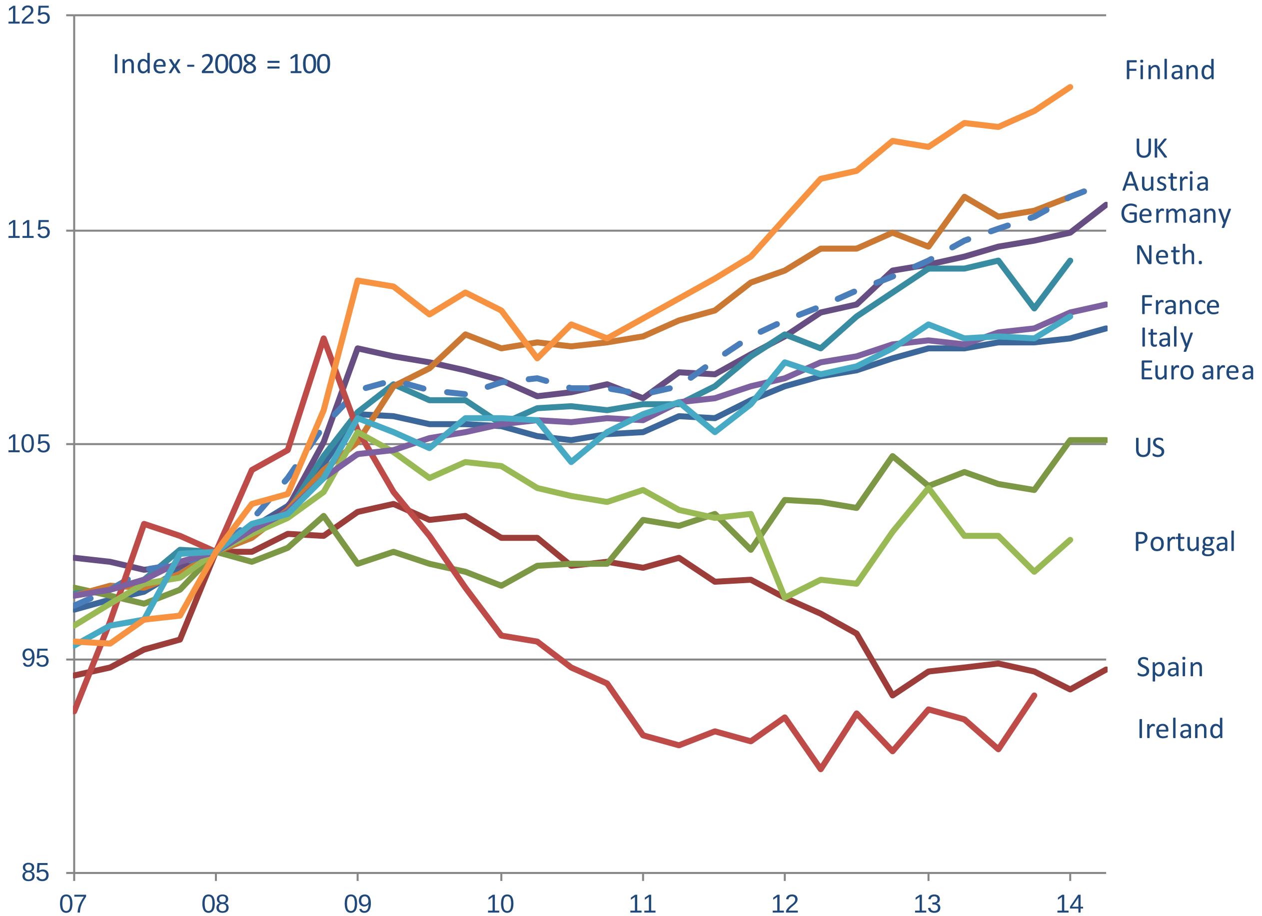
# Exports – key to recovery
## Spain even outpaces Germany



# Eurozone Periphery - improving competitiveness

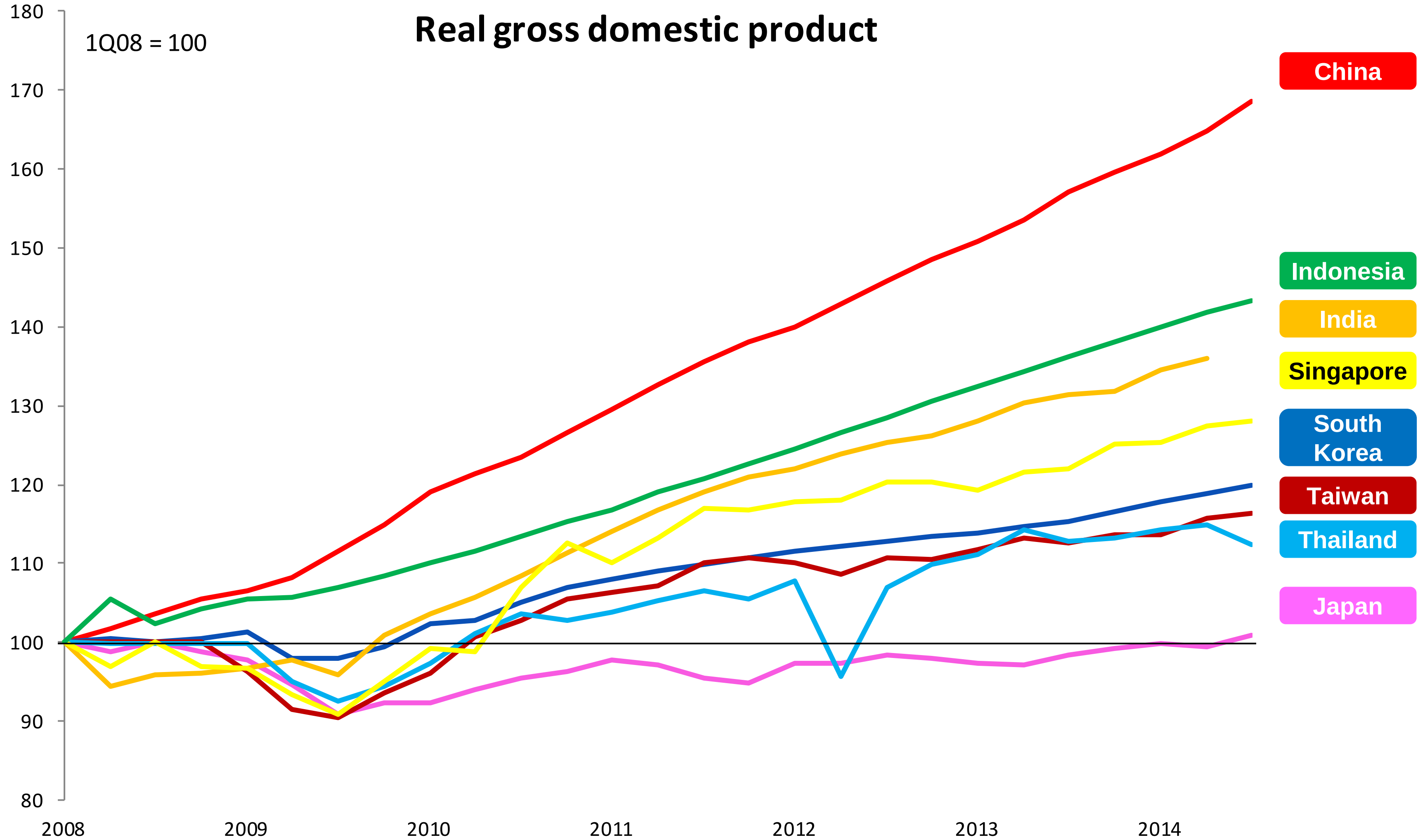
## Cost cutting helps them reverse previous losses

### Relative unit labour cost comparison

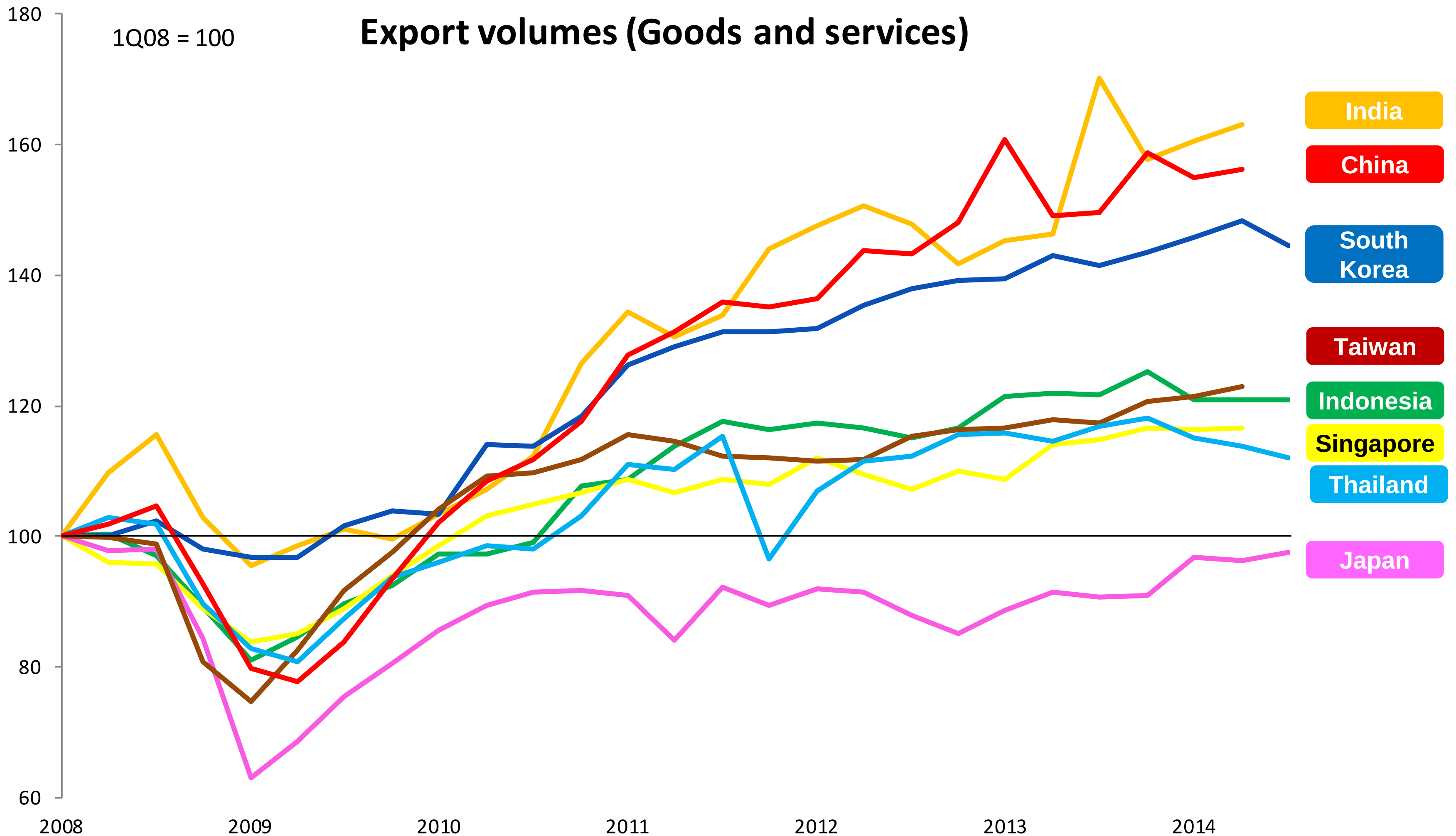



- Crisis has led to reforms in parts of the Eurozone periphery…
- …enabling them to play catch up with "core" Europe
- Recent euro decline will help the whole region

# The Asian growth divide

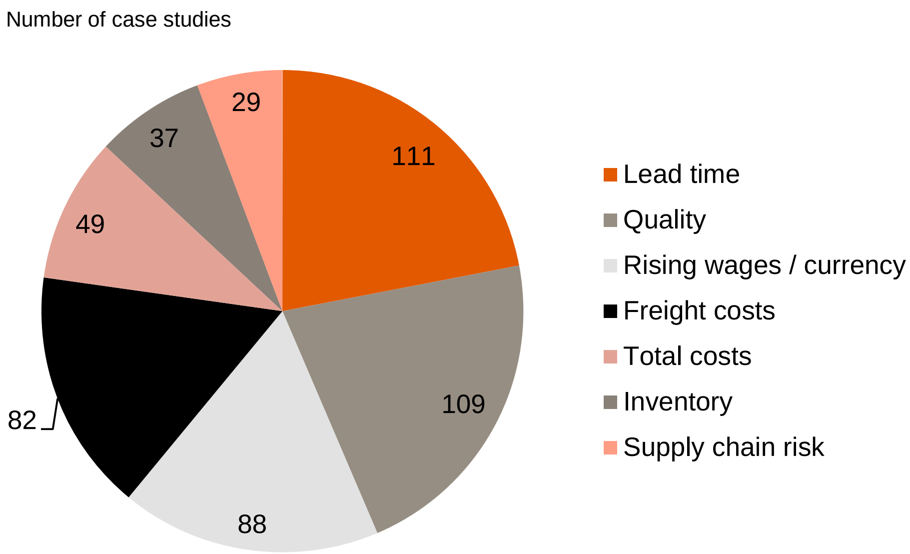


# Chinese exports have more competition...



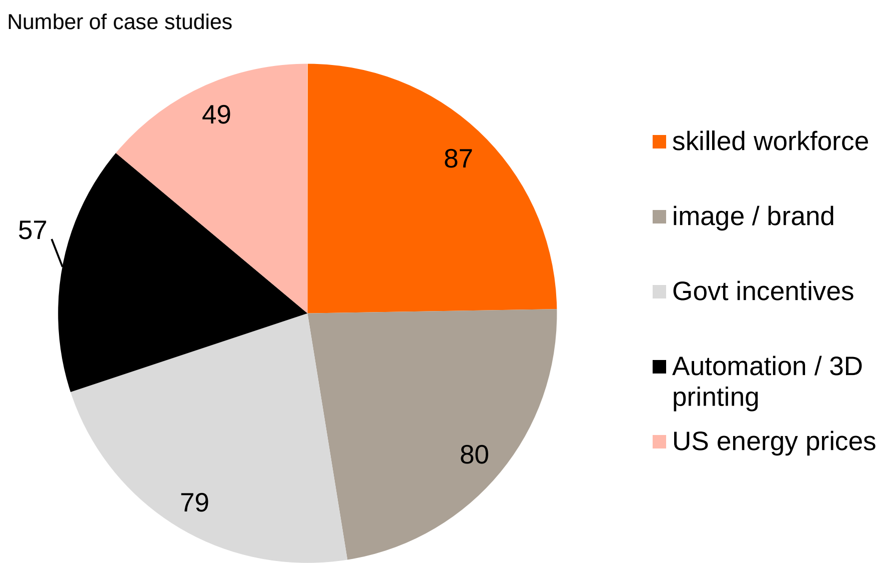
# Why is the US re-shoring?

## Main negative reasons for re-shoring




Source: Re-shoring initiative

## Top 5 Positive reasons for re-shoring

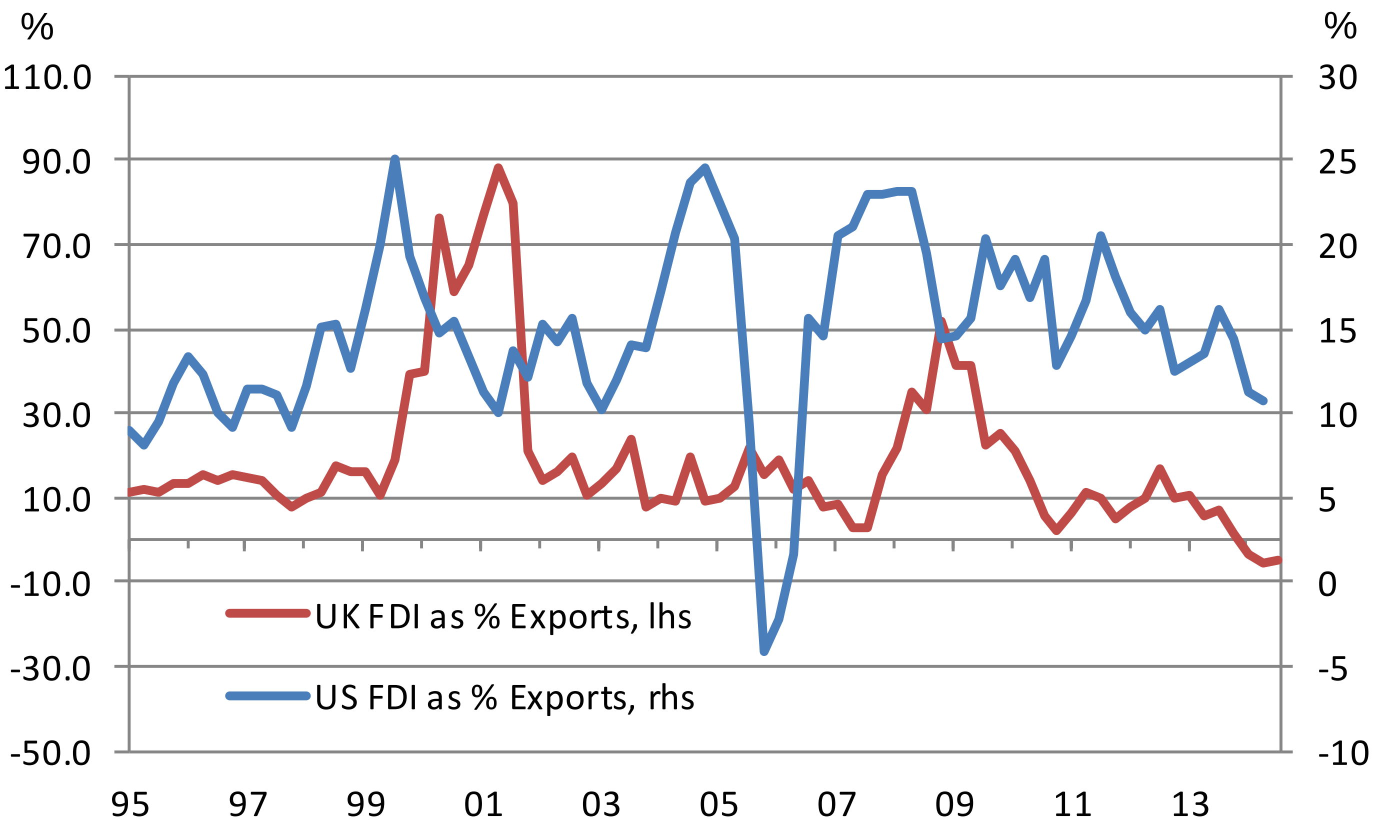



Source: Re-shoring initiative

- Others include:
- Delivery, communications, environment, control, travel cost / time, price

- Others include:
- Re-design, productivity, R&D, Infrastructure, customer responsiveness, real estate cost, customs

# Is it FDI?.....No




- FDI is arguably a substitute for trade…
- …(though empirical evidence suggests it supports trade)…
- Either way, it has been ordinary in the US…
- …and falling in the UK

# Is it re-shoring (on-shoring)? Could be….

- Most of these have relocated from China…
- …or elsewhere in Asia
- (NCR from China, other Asia and Brazil)

digital innovation incorporated

Electrolux

Whirlpool

FOXCONN

ZENTECH

SCI
SUAREZ CORPORATION INDUSTRIES

LIGHTSAVER
TECHNOLOGIES, INC.

NCR

lenovo

MOREY

Google

SEESMART

NEUTEX
HOME DECORATION
Member of HOFTEX GROUP

ING

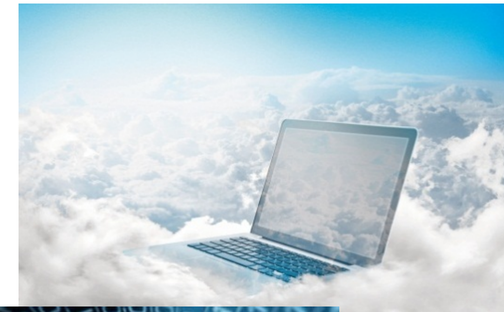
# Disruptive technologies – light and local

## Many new technologies reduce the need for movement of goods

*An impressive list of disruptive technologies…*

1. **Internet of Things**
2. **Mobile internet**
3. **3D Printing**
4. **Knowledge work automation**
5. **Advanced Robotics**
6. **Biotechnology and genomics**
7. **Nano-technology and advanced materials**
8. **Cloud technology**
9. **Self-driving vehicles**
10. **Renewable energy**
11. **Energy storage**
12. **Advanced oil and gas recovery**

Source: McKinsey Global Institute/ING



ING

# Transatlantic Trade & Investment Partnership (TTIP)
## Economically beneficial, but political divisions delay progress…

**Reduce Tariffs** to encourage Trade in Goods

- Reduced tariffs boost competition and trade
- Particularly in agricultural products, textiles and clothing and footwear (tariffs on shoes as high as 66% in the US[1])

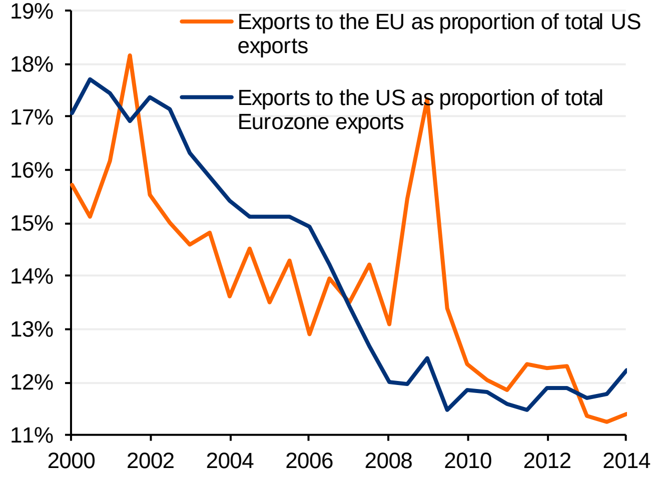
**Harmonise regulation** and industry standards

- e.g. Joint car safety and drug registration regulations would prevent double tests in the US and EU.

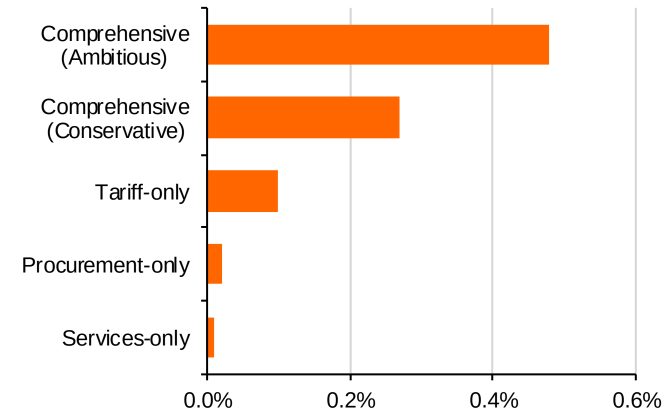
Relax **"Buy America"** procurement rules

- Currently only 32% of US Federal procurement market is open to EU businesses.

**Proportion of trade between US and EU has decreased…**




Estimated increase in EU GDP from TTIP




Source: European Commission

[1] Source: BBC

# Trans-Pacific Partnership
## Political momentum softens here as well…


**40% of Global Trade**[1]

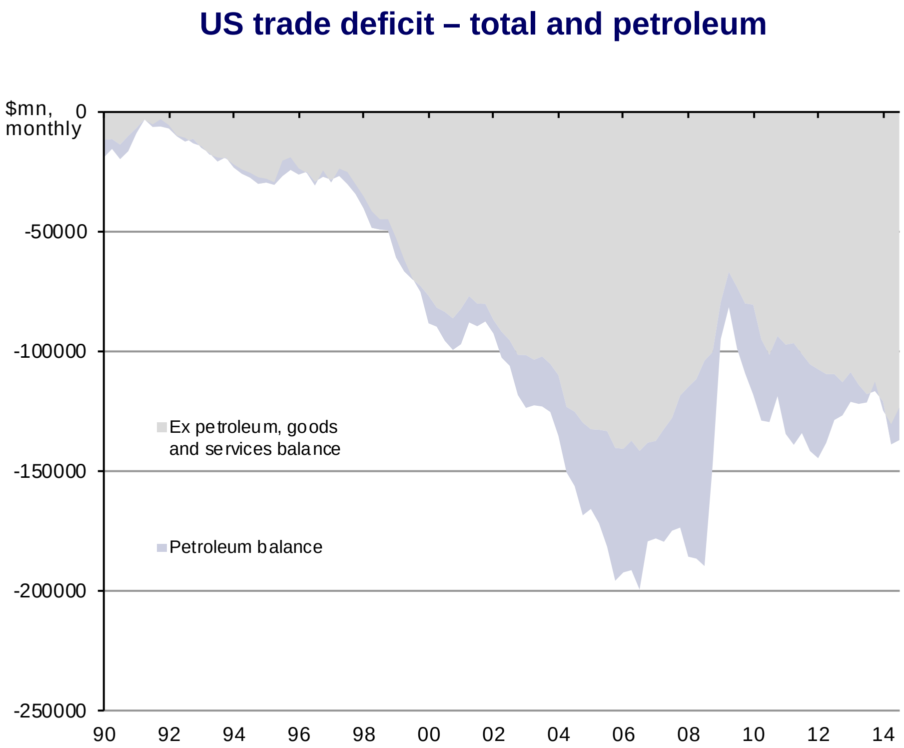
- ✓ Stricter **IP protection**
- ✓ **Reduce unfair treatment** of state-owned enterprises
- ✓ **Investor-state dispute** settlement for unfair treatment
- ✓ **Exceptions for some industries** *(e.g Japanese Agricultural)*

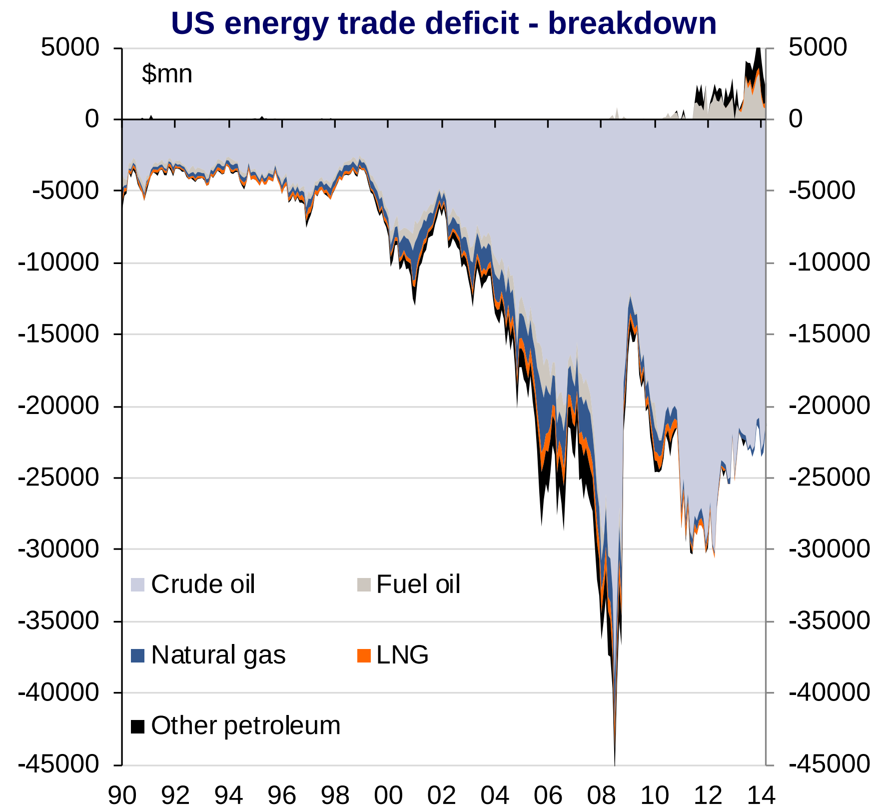
**But tricky negotiations…**

- Reluctance to reduce state-controlled industry
- Conflict over FX intervention
- Compromise on protected industries contentious

[1] Source: USTR

# Net exports boosted by energy “independence”
## Ukraine crisis may add impetus to the US energy revolution



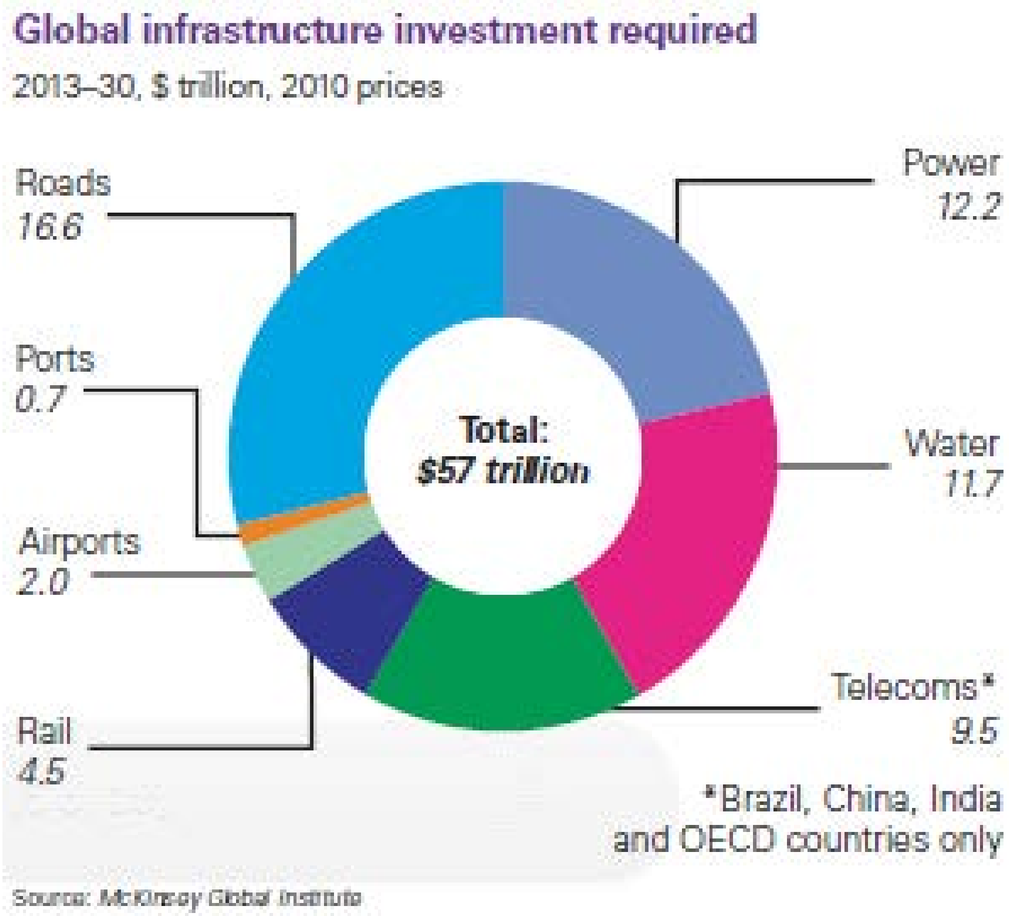




- The US Current account deficit is now only about 2.4% GDP, down from 6% in 2006
- The crisis has “helped” by curtailing imports, but so too has the falling energy deficit…
- …in particular, the gas deficit has turned into a surplus
- Ukraine crisis could accelerate moves to step up US energy exports

# Will policy shift to boost infrastructure?

## If so, global trade in ‘heavy stuff’ could benefit

- **Fiscal austerity, bank deleveraging and derisking has constrained global infrastructure spending**
- **S&P and McKinsey estimate $57 trillion, or $3.2 trillion a year, will be needed to finance infrastructure development up to 2030**
- **Continued weak growth and low financing costs could lead to a policy shift to address this…**
- **…boosting global trade**



# Conclusions

- **Post the financial crisis, trade is no longer growing twice as fast as output**
- **Growth in the developed markets is slower, reflecting sluggish domestic demand…**
- **…especially in big deficit nations, which are trying to emulate Germany's export success…**
- **…with varying degrees of success – US and Spain have done well**
- **Offshoring and re-imports have waned**
- **Disruptive technologies may also reduce trade in the long term**
- **But there could be positives from…**

1. Trade liberalisation and the spreading of FDI from China
2. New energy flows, especially from the US
3. A policy shift to boost infrastructure

# Research analyst contacts

| Developed Markets | | Title | Telephone | Email |
|---|---|---|---|---|
| **London** | Mark Cliffe | Head of Global Markets Research | 44 20 7767 6283 | mark.cliffe@uk.ing.com |
| | Rob Carnell | Chief International Economist | 44 20 7767 6909 | rob.carnell@uk.ing.com |
| | James Knightley | Senior Economist, UK, US, $ Bloc | 44 20 7767 6614 | james.knightley@uk.ing.com |
| | Chris Turner | Global Head of Strategy and Head of EMEA and LATAM Research | 44 20 7767 1610 | christopher.turner@uk.ing.com |
| | Petr Krpata | Foreign Exchange Strategist | 44 20 7767 6561 | petr.krpata@uk.ing.com |
| | Padhraic Garvey | Global Head of Developed Markets Debt Strategy | 44 20 7767 8057 | padhraic.garvey@ingbank.com |
| | Aengus McMahon | Head of European High Yield Research | 44 20 7767 8044 | aengus.mcmahon@uk.ing.com |
| **Amsterdam** | Maarten Leen | Head of Macro Economics | 31 20 563 4406 | maarten.leen@ing.nl |
| | Martin van Vliet | Senior Economist, Eurozone | 31 20 563 9528 | martin.van.vliet@ing.nl |
| | Teunis Brosens | Senior Economist, US | 31 20 563 6167 | teunis.brosens@ing.nl |
| | Dimitry Fleming | Senior Economist, Netherlands | 31 20 563 9497 | dimitry.fleming@ing.nl |
| | Jeroen van den Broek | Head of Developed Markets Strategy and Research | 31 20 563 8959 | jeroen.van.den.broek@ingbank.com |
| | Mark Harmer | Head of Developed Markets Credit Research | 31 20 563 8964 | mark.harmer@ingbank.com |
| | Maureen Schuller | Head of Covered Bond Strategy | 31 20 563 8941 | maureen.schuller@ingbank.com |
| | Hamza Khan | Senior Commodities Strategist | 31 20 563 8958 | hamza.khan@ingbank.com |
| | Suvi Kosonen | Senior Credit Analyst, Banks | 31 20 563 8029 | suvi.kosonen@ingbank.com |
| | Nadège Tillier | Senior Credit Analyst, Utilities and Energy | 31 20 563 8943 | nadege.tillier@ingbank.com |
| | Judith van der Ven | Senior Credit Analyst, TMT and High Yield | 31 20 563 8961 | judith.van.der.ven@ingbank.com |
| | Job Veenendaal | Credit Analyst, Consumer Products and Retail | 31 20 563 8956 | job.veenendaal@ingbank.com |
| | Roelof-Jan van den Akker | Technical Analyst | 31 20 563 8178 | roelof-jan.van.den.akker@ingbank.com |
| **Brussels** | Peter Vanden Houte | Chief Economist, Belgium, Eurozone | 32 2 547 8009 | peter.vandenhoute@ing.be |
| | Julien Manceaux | Economist, France, Belgium, Switzerland | 32 2 547 3350 | julien.manceaux@ing.be |
| | Philippe Ledent | Economist, Belgium, Luxembourg | 32 2 547 3161 | philippe.ledent@ing.be |
| | Anthony Baert | Economist, Ireland, Slovenia, Portugal | 32 2 547 3995 | anthony.baert@ing.be |
| **Frankfurt** | Carsten Brzeski | Chief Economist, Germany, Austria | 49 69 27 222 64455 | c.brzeski@ing-diba.de |
| **Milan** | Paolo Pizzoli | Senior Economist, EMU, Italy, Greece | 39 02 55226 2468 | paolo.pizzoli@ing.it |
| **Emerging Markets** | | **Title** | **Telephone** | **Email** |
| **New York** | Gustavo Rangel | Chief Economist, LATAM | 1 646 424 6464 | gustavo.rangel@ing.com |
| **London** | Dorothee Gasser-Châteauvieux | Senior Economist, EMEA | 44 20 7767 6023 | dorothee.gasser@uk.ing.com |
| | Deanie Haugaard Jensen | EM Economist, Baltics, Croatia | 44 20 7767 5340 | deanie.haugaard@uk.ing.com |
| **Czech Republic** | Jakub Seidler | Senior Economist, Czech Republic | 420 257 47 4432 | jakub.seidler@ing.cz |
| **Hungary** | András Balatoni | Economist, Hungary | 36 1 235 8757 | andrás.balatoni@ing.hu |
| **India** | Upasna Bhardwaj | Economist, India | 91 22 3309 5718 | upasna.bhardwaj@ingvysyabank.com |
| **Philippines** | Joey Cuyegkeng | Economist, Philippines | 632 479 8855 | joey.cuyegkeng@asia.ing.com |
| **Poland** | Rafal Benecki | Chief Economist, Poland | 48 22 820 4696 | rafal.benecki@ingbank.pl |
| | Grzegorz Ogonek | Economist, Poland | 48 22 820 4608 | grzegorz.ogonek@ingbank.pl |
| **Romania** | Vlad Muscalu | Senior Economist, Romania | 40 21 209 1393 | vlad.muscalu@ing.ro |
| **Russia** | Dmitry Polevoy | Senior Economist, Russia & CIS | 7 495 771 7994 | dmitry.polevoy@ingbank.com |
| | Egor Fedorov | Senior Credit Analyst, Russia & CIS | 7 495 755 5480 | egor.fedorov@ingbank.com |
| **Singapore** | Tim Condon | Head of Research & Chief Economist, Asia | 65 6232 6020 | tim.condon@asia.ing.com |
| | Prakash Sakpal | Economist, Asia | 65 6232 6181 | prakash.sakpal@asia.ing.com |
| **Turkey** | Muhammet Mercan | Chief Economist, Turkey | 90 212 329 0751 | muhammet.mercan@ingbank.com. |

# Disclosures and disclaimer

ANALYST CERTIFICATION
The analyst(s) who prepared this presentation hereby certifies that the views expressed in this presentation accurately reflect his/her personal views about the subject securities or issuers and no part of his/her compensation was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this presentation.

IMPORTANT DISCLOSURES
Company disclosures are available from the disclosures page on our website at http://research.ing.com.

The remuneration of research analysts is not tied to specific investment banking transactions performed by ING Group although it is based in part on overall revenues, to which investment banking contribute.

Securities prices: Prices are taken as of the previous day's close on the home market unless otherwise stated.

Conflicts of interest policy. ING manages conflicts of interest arising as a result of the preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese walls as monitored by ING Compliance. For further details see our research policies page at http://research.ing.com.

Research analyst(s): The research analyst(s) for this presentation may not be registered/qualified as a research analyst with the NYSE and/or NASD. The research analyst(s) for this presentation may not be an associated person of ING Financial Markets LLC and therefore may not be subject to Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by the research analyst's account.

FOREIGN AFFILIATES DISCLOSURES
Each ING legal entity which produces research is a subsidiary, branch or affiliate of ING Bank N.V. See back page for the addresses and primary securities regulator for each of these entities.

DISCLAIMER
This presentation has been prepared on behalf of ING (being for this purpose the commercial banking business of ING Bank NV and certain of its subsidiary companies) solely for the information of its clients. ING forms part of ING Group (being for this purpose ING Groep NV and its subsidiary and affiliated companies). It is not investment advice or an offer or solicitation for the purchase or sale of any financial instrument. While reasonable care has been taken to ensure that the information contained herein is not untrue or misleading at the time of publication, ING makes no representation that it is accurate or complete. The information contained herein is subject to change without notice. ING Group and any of its officers, employees, related and discretionary accounts may, to the extent not disclosed above and to the extent permitted by law, have long or short positions or may otherwise be interested in any transactions or investments (including derivatives) referred to in this presentation. In addition, ING Group may provide banking, insurance or asset management services for, or solicit such business from, any company referred to in this presentation. Neither ING Group nor any of its officers or employees accepts any liability for any direct or consequential loss arising from any use of this presentation or its contents.  Any investments referred to herein may involve significant risk, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any investments referred to herein may fluctuate and/or be affected by changes in exchange rates. Past performance is not indicative of future results. Investors should make their own investigations and investment decisions without relying on this presentation. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this presentation. Clients should contact analysts at, and execute transactions through, an ING entity in their home jurisdiction unless governing law permits otherwise. Additional information is available on request. Country-specific disclosures: EEA: This presentation constitutes "investment research" for the purposes of the Markets in Financial Instruments Directive and as such contains an objective or independent explanation of the matters contained herein. Any recommendations contained in this presentation must not be relied on as investment advice based on the recipient's personal circumstances. If further clarification is required on words or phrases used in this presentation, the recipient is recommended to seek independent legal or financial advice. Hong Kong: This presentation is distributed in Hong Kong by ING Bank N.V., Hong Kong Branch which is licensed by the Securities and Futures Commission of Hong Kong under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). This document does not constitute a solicitation or an offer of securities or an invitation to the public within the meaning of the SFO. This presentation is to be circulated only to "professional investors" as defined in the SFO. India: Any recipient of this presentation wanting additional information or to effect any transaction in Indian securities or financial instruments mentioned herein must do so by contacting a representative of ING Vysya Bank Limited ("ING Vysya") which is responsible for distribution of this presentation in India. ING Vysya is an affiliated company of ING. ING Vysya does not accept liability for any direct or consequential loss arising from any use of information provided in this presentation. Italy: This presentation is issued in Italy only to persons described in Article No. 31 of Consob Regulation No. 11522/98. Singapore: This document is provided in Singapore by or through ING Bank N.V., Singapore Branch and is provided only to accredited investors, expert investors and institutional investors, as defined in Section 4A of the Securities and Futures Act, Cap. 289. If you are an accredited investor or expert investor, please be informed that in ING's dealings with you, ING is relying on the following exemptions to the Financial Advisers Act, Cap. 110 ("FAA"): (1) the exemption in Regulation 33 of the Financial Advisers Regulations ("FAR"), which exempts ING from complying with Section 25 of the FAA on disclosure of product information to clients; (2) the exemption set out in Regulation 34 of the FAR, which exempts ING from complying with Section 27 of the FAA on recommendations; and (3) the exemption set out in Regulation 35 of the FAR, which exempts ING from complying with Section 36 of the FAA on disclosure of certain interests in securities. United Kingdom: This presentation is issued in the United Kingdom by ING Bank N.V., London Branch only to persons described in Articles 19, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and is not intended to be distributed, directly or indirectly, to any other class of persons (including private investors). United States: Any person wishing to discuss this presentation or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this presentation in the United States under applicable requirements. The distribution of this presentation in other jurisdictions may be restricted by law or regulation and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.