

## **Are we at the end of the third period of globalization?**

The first period of globalization followed the discovery of America by Christopher Columbus in 1492 and Magellan's circumnavigation in 1521. The second period, that of the colonial empires, accompanied the industrial revolution in Europe in the 19<sup>th</sup> century. The third period began in 1989, with the collapse of the Soviet Union empire and the opening of borders in Europe, but also those of China after a decade of successful reforms under Deng Xiaoping's leadership.

This third period of globalization was aided by two factors: the widespread use of the container ships, which significantly reduced the costs and times of transporting goods, and the development of the Internet, which allowed instantaneous global communication and information sharing.

One of the key features during this third period is that China has become the factory of the world, and complex supply chains have been put in place, from mines in Africa to sophisticated parts produced in Korea or Thailand before their processing or final assembly in China. Hundreds of millions of people, especially in Asia, have been lifted out of poverty, and western consumers have been able to enjoy higher standards of living by being able to buy clothes, cell phones and appliances at much lower prices than if they had been produced in the West.

However, these positive achievements are today called into question: the hope of a democratic transformation of China going hand-in-hand with its economic development and its rise in living standards turns out to be an illusion. In the West, a feeling of loss of control and growing economic insecurity is fueling populism. And the US public shares President Trump's concern, if not all of his policy prescriptions, regarding the rise of China and its role in the world. US concerns would persist in the event of victory by Joe Biden. President Xi Jinping knows it and is convinced that China can now meet this challenge. In this context, the Covid crisis has further reinforced the will of Western political leaders to reduce excessive dependence on Asian producers in strategic areas.

Are we therefore going towards the end of the third globalization? Perhaps, but a nuanced answer is appropriate.

First, no large western company can ignore the Chinese or Indian markets, each with 1.4 billion consumers. As an example, Volkswagen sold more than 3 million vehicles in China last year, 1.7 million in Europe and only 300,000 in the United States. The same reasoning applies to Sanofi: even if some of its strategic production lines will be relocated in Europe, the pharmaceutical group can only remain one of the major world players by remaining present in the United States, in China and in India.

Second, it would make no sense to break the production chains for non-strategic products, because the only consequence would be a considerable increase in cost with no strategic benefit. Relocation to Europe and the United States or their immediate neighbors (Morocco / Tunisia; Mexico) will therefore be limited to strategic products.

At the same time, production chains will continue to evolve slowly for strictly economic reasons: rising wages in China are prompting large groups, including Chinese, to move their factories for unsophisticated products such as clothing, to countries with lower wage costs, from Cambodia to Bangladesh and Ethiopia.

The areas where breaks in production chains will be most brutal are those that are deemed decisive on a strategic level: artificial intelligence, data, robotics, computing, telecommunications, and other cutting-edge technologies. Washington has used a variety of regulatory and financial tools to reduce cooperation with China in these areas where the future of the world economy will be played out. Huawei's case is best known and dozens of companies are concerned. Thousands of Chinese students and researchers in the United States have to leave the country, and Washington is increasing the pressure to have its decisions imposed on all Western countries. China is determined to rise to the challenge and become the world number one in these strategic areas. The European Union refuses to be the playing field for this battle of titans. Instead, it has adopted an ambitious plan, that of a "Sovereign Europe" in these same areas and plans to invest tens of billions of euros in it to catch up.

Therefore in the area of technology - decisive for the future of the economy, security, social control and political power - we may witness the end of an authentic globalization and the progressive construction of large blocks, each with their own rules and internal and external control instruments.

On the political level, the same logic will prevail. China is determined to organize Asia around itself. Its "New Silk Roads" project echoes the time of the Roman Empire when all roads were to lead to Rome. The United States, for its part, has renewed its partnership with Canada and Mexico and wants to sponsor the emerging alliance between India, Japan, Korea and Australia. Finally, the European Union wants to be more "sovereign", economically, but also politically for some of its leaders such as President Macron, by developing an ambitious neighborhood policy in the East and in the South.

This multipolar world will be harmonious, and in the long term the economy will remain globalized, only if the leaders of the main powers are convinced that it is in the interest of their country to work for the adaptation of international organizations, from the UN to the WTO, to this new context by providing them with the means to enforce respect for fair rules. This is essential for effectively addressing global challenges, from pandemics to climate change. Yet nothing is less certain. Much will depend on the result of the US elections on November 3<sup>rd</sup>.

Jean-David Lévitte