DE-GLOBAL

10 Trends Defining the New World
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6) U.S.-China: The Great Decoupling
7) Business: Evolving Strategies for Braving the New World
8) Government Economists: Fewer Fiscal / Monetary Tools
9) Leadership: New Global Players Emerging
10) Super-Disruptors: Climate, Debt, Technology & Urbanization
What Unleashed Hyper-Globalization

1989-2009
COLD WAR ENDED

1989: Berlin Wall fell
1990: Germany reunified
1991: USSR ended

INDIA LIBERALIZED

1991: Reduced tariffs, FDI enabled

CHINA OPENED

1991: Deng’s 2nd big reforms push privatization & opening

EU BORN

1993: Treaty of Maastricht creates EU, Euro
NEW POLICIES FACILITATED GLOBAL TRADE & INVESTMENT

Preferential Trade Agreements In Force

World Trade Organization

NAFTA
North American Free Trade Agreement

The European Single Market
Monetary and fiscal policy harmonization

Permanent Normal Trade Relations with China
NEW TECHNOLOGIES FLATTENED THE WORLD

Cost of International Calls Plummeted, # Internet Users Exploded

Sources: FCC (calls); Our World in Data (internet)
PERCEPTION 1990’s: AMERICA HAD ALL THE ANSWERS

MILITARILY

TECHNOLOGICALLY

CULTURALLY

ECONOMICALLY

SOCIETALLY

1999 SCORES

<table>
<thead>
<tr>
<th>STATUS</th>
<th>FREEDOM RATING</th>
<th>CIVIL LIBERTIES</th>
<th>POLITICAL RIGHTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free</td>
<td>1.0</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

1 = Best, 7 = Worst
What Hyper-Globalization Unleashed

1989-2009
TRADE & GLOBAL INVESTMENT SKYROCKETED

Trade as % World GDP
Outbound FDI as % GDP

Sources: UN Conference on Trade & Development (FDI); World Bank (trade)
Global Middle Class Grew as Extreme Poverty Plummeted

Percentage of Global Population

% World Living in Extreme Poverty

% World in Middle Class

Sources: Our World in Data (World Bank); Brookings/Kharas (Middle Class)
DOMESTIC DISPARITY

**Winners Taking All in a Superstar Economy**

Top 1% U.S. Households Share of Fiscal Income

<table>
<thead>
<tr>
<th>Year</th>
<th>1975</th>
<th>1995</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>8%</td>
<td>14%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Top 100 U.S. Firms’ Share of Earnings

<table>
<thead>
<tr>
<th>Year</th>
<th>1975</th>
<th>1995</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share</td>
<td>49%</td>
<td>53%</td>
<td>84%</td>
</tr>
</tbody>
</table>

CEO-to-Worker Avg. Pay Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>1975</th>
<th>1995</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>25x</td>
<td>112x</td>
<td>272x</td>
</tr>
</tbody>
</table>

Sources: Income (World Inequality Database); Firms (Kahle & Stultz); CEO ratio (EPI)
CHINA ROARED TO WORLD’S 2ND LARGEST ECONOMY

GDP of China vs G7 Nations (ex-USA)

Source: World Bank (G7)
Tech-Enabled, Wall Street-Rewarded

MAXIMIZING SHAREHOLDER VALUE:
- IP → Singapore
- IT → Bangalore
- Manufacturing → China
- Assembly → Mexico
- Tax HQ → Dublin
- CEO → Davos
Why Hyper-Globalization Ended

2010 –
GLOBAL GROWTH SLOWED

Psychology of Scarcity Replaced Psychology of Abundance

GDP (world % growth)  Exports & Imports (World % growth)

1969-1988: 3.64  5.17
1989-2008: 3.02  5.98
2009-2018: 2.53  3.28

Sources: World Bank (GDP; Trade)
What the West Got Wrong

- China didn’t liberalize; it became more authoritarian
- Not a win-win... 2M U.S. manufacturing jobs offshored
- More expansionist China seeking regional dominance
- China aims to dominate tech via subsidies, bullying & theft
- Market access never evened, trade barriers persist
PERCEPTION 2010’s: THE AMERICAN MODEL WAS FLAWED

FOREIGN POLICY
- The Slog of War
- Why Fixing Iraq Will Be Harder Than Bush or Kerry Told You
- An Agenda for the Next Four Years
- By Henry A. Kissinger

ECONOMIC SYSTEM
- The Crash
- After a wild week on Wall Street, the world is different

SAFETY NET
- The World’s Most Unequal Country

CULTURE
- Armed America
- More guns, more shootouts, more massacres

TECHNOLOGY
- Why we’re losing the Internet to the culture of hate
- By Joel Stein
NEW GEOPOLITICS CHANGED OLD ASSUMPTIONS

Middle East Got Harder...

Aggressive Anti-Globalists...

...And Less Essential

Oil production from hydraulically fractured wells in the United States (2000-2015)

- Gulf of Mexico and Alaska
- Lower 48 tight formations
- Other Lower 48

Source: U.S. Energy Information Administration, IHS Global Insight, and Drillinginfo

...Wielding Weapons of Mass Division
DEGLOBAL

What’s Next?
THE WORLD: LEADERSHIP & DIRECTION UP FOR GRABS

Globalized

Trade Wars end

China growth slowed by debt, demographics & lack of freedom

U.S. growth slowed by debt, inequality & political instability

Regionalized

Trade War with allies ends, unite to contain China

America First trade wars persist vs. rest of world

U.S. leads on new deals (eg USMCA, TPP, EU)

China leads global deals (eg RCEP, fix WTO, Climate)
MAJOR ECONOMIES: AGING FAST

% Change in Working Age Population, Past & Future

Source: Census Bureau Int’l Database (per Collaborative Fund)
### INTERNET POLICY: REGIONALISM REPLACING GLOBALISM

<table>
<thead>
<tr>
<th>GOAL</th>
<th>Protect People</th>
<th>Empower People</th>
<th>Control People</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPROACH</td>
<td>Heavy Regulation (eg GDPR)</td>
<td>Light Regulation</td>
<td>State Dictates (eg Great Firewall)</td>
</tr>
<tr>
<td>ECONOMIC IMPACT</td>
<td>Older Industries Protected (fewer startups)</td>
<td>Disruptors Dominate (consumers / competitors less protected)</td>
<td>Nat’l Champions Dominate (limited global reach)</td>
</tr>
<tr>
<td>POLITICAL IMPACT</td>
<td>Hits Nations &gt; EC (populists empowered)</td>
<td>Permissionless Politics (government weakened)</td>
<td>Surveillance State (gov’t strengthened)</td>
</tr>
<tr>
<td>MEDIA IMPACT</td>
<td>Some Limits (copyright, truth, privacy)</td>
<td>Confirmation Bias (affirming &gt; informing)</td>
<td>State-Dictated Reality</td>
</tr>
<tr>
<td>SOCIETAL IMPACT</td>
<td>Seeking Middle Ground (free-ish speech)</td>
<td>New Voices Empowered (both hope &amp; hate)</td>
<td>“Social Credit Scores” (less freedom)</td>
</tr>
</tbody>
</table>
POPULISM IS THE NEW PATH TO POWER

Voters Demanding Change, Rejecting Establishment
U.S. POLITICS: ANTI-GLOBALISTS ASCENDANT

The Big Squeeze: Multinational corporations increasingly have no political home

New Left

Open Borders
End Endless Wars
Trade Deals Have Hurt
Vilify Elites
(CEOs, Wall Street, Country Club)

Center Left
Muscular Global Leadership
New Trade Deals Sought
Business & Government Partner to Solve Problems
Vilify Elites
(Media, Globalists, University Club)

Center Right
More Legal Immigration
End Endless Wars
Trade Deals Have Hurt

New Right
Limit Immigration

Left
Center
Right

Business & Government
Partners to Solve Problems

Vilify Elites
(Media, Globalists, University Club)
**U.S.-CHINA: THE GREAT DECOUPLING**

*Battlefields of the New Cold War*

**DRIVING U.S.-CHINA CONFLICT**

**Domestic Politics**
U.S. mistrust of China is bipartisan
China needs someone to blame for slowing growth

**Technology**
U.S. seeks to remain global leader in emerging techs
China aims to make the rules for emerging techs

**Divergent Values**
U.S. prizes freedom, human rights
China values order, collective good

**Mutual Resentment**
U.S. thinks China stealing from us
China thinks US holding it back

**Increasing # of Potential Catalysts**
Hacking, Taiwan/HK, South China sea, resources

**ENCOURAGING U.S.-CHINA COOPERATION**

**Shared Challenges**
Climate, Terrorism, Non-proliferation, Space

**Mutual Opportunities**
Both benefit from trade, investment, education & research

**Powerful Domestic Constituencies**
U.S.: Ag, Hollywood, Wall Street, Universities
China: multinational tech, manufacturers
The Regionally Responsive Stakeholder Replacing the Hyper-Global Corporation

<table>
<thead>
<tr>
<th>LANDSCAPE</th>
<th>STRATEGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liberalism rising</td>
<td>Populism rising</td>
</tr>
<tr>
<td>Abundance mindset</td>
<td>Scarcity mindset</td>
</tr>
<tr>
<td>Global deregulation</td>
<td>Regional regulation</td>
</tr>
<tr>
<td>Market access increasing</td>
<td>Market access decreasing</td>
</tr>
<tr>
<td>Win Washington &amp; the world follows</td>
<td>Need allies everywhere; Washington no longer leads</td>
</tr>
<tr>
<td>Spread functions globally</td>
<td>Develop regional capabilities</td>
</tr>
<tr>
<td>Show Wall Street you’re global</td>
<td>Show Main Street you’re local</td>
</tr>
<tr>
<td>Markets value efficiency / Consumers value bargains</td>
<td>Markets value growth / Consumers value values</td>
</tr>
</tbody>
</table>
LEADERSHIP: NEW GLOBAL PLAYERS EMERGING

Solving Challenges National Governments Cannot (or Will Not)

State & Local Officials

Activists

NGOs

CEO's
GOVERNMENT ECONOMISTS: FEWER FISCAL / MONETARY TOOLS

**Fewer Workers Per Retiree**

<table>
<thead>
<tr>
<th>Year</th>
<th>Worker : Retiree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>16:1</td>
</tr>
<tr>
<td>1960</td>
<td>5:1</td>
</tr>
<tr>
<td>2015</td>
<td>3:1</td>
</tr>
<tr>
<td>2035</td>
<td>2:1</td>
</tr>
</tbody>
</table>

The number of workers per Social Security retiree is falling.

Source: 2016 Social Security Trustees Report

**Fewer Discretionary Dollars**

All Tax Revenue Will Go Toward Health Care, Social Security, and Net Interest by 2032

**Interest Rates Already Low...**

Avg Weighted Rate at Major Central Banks*

<table>
<thead>
<tr>
<th>Years</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-79</td>
<td>7.47</td>
</tr>
<tr>
<td>1980-89</td>
<td>10.35</td>
</tr>
<tr>
<td>1990-99</td>
<td>5.85</td>
</tr>
<tr>
<td>2000-09</td>
<td>3.33</td>
</tr>
<tr>
<td>2010-18</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Sources: CFRB (Worker : Retirees); Discretionary (Heritage 2016); Rates; Central Banks

**...and Central Banks Hold Too Much**

As central bank balance sheets have diminished, market volatility has increased.

SUPER-DISRUPTORS WILL ACCELERATE GEOPOLITICAL CHANGE

- Slower Growth
- Rising conflicts over revenue (e.g. digital tax)
- Search for yield inflates global bubbles

- Slower Growth
- Rising conflicts over water, food, resources
- Accelerating migration & refugee crises

- Disruptive Growth
- Displacements driven by automation, AI, blockchain
- Cyber, deepfakes, autonomous systems increase risks

- Uneven Growth
- Rising domestic conflicts: NYC = London ≠ Lackawanna
- Higher risks from pandemics, critical infrastructure hits
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