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# The Changing Tides of the Global Economy



By L. Felipe Monteiro , INSEAD, with Marcos Troyjo , Brazilian Ministry of Foreign Trade & International Affairs

**Political economist and diplomat Marcos Troyjo advises us to buckle up for a possible new round of globalisation.**

The news lately – Brexit, NAFTA is no more – may seem like we have seen the last of globalisation. Yet Marcos Troyjo’s view of the future sees far more connections than uncouplings. As Brazilian Deputy Economy Minister for Foreign Trade & International Affairs, he has helped hammer out the [MERCOSUR/European Union](#) deal last summer, which faces ratification over the coming year.

Recently Troyjo, former director of the [BRICLab](#) at Columbia University and career diplomat, visited INSEAD and described his vision of how globalisation has evolved since the Berlin Wall came down. For him, globalisation is not fixed or predictable; it is “a set of characteristics that mark one specific historical period, but then those characteristics evolve.”

What are the characteristics that make a nation rise? What are the constituent elements that help a nation become more powerful, more

prosperous and more influential? Nations rise when they can devise and implement a strategy that takes advantage of their own particular features at a certain phase in the evolution of globalisation.

Each time period or era of globalisation has its own unique characteristics that allow for the emergence of some nations and the decline of others. For nations and businesses to capitalise on this, they must understand what is important to each era in order to devise a winning strategy.

### **Three eras of globalisation**

Troyjo spoke about three eras of globalisation from 1989 to the present. First we had deep globalisation, followed by de-globalisation and we may be on the cusp of re-globalisation now.

**Deep globalisation (1989-2008):** “When the Berlin Wall came down,” Troyjo said, “I think it would be fair to say that there was a sort of notion of the triumph of the West.”

Representative democracies were seen by many as the best and undisputed filter for government and citizens to interact with one another. Free markets, “not the collectivist approach,” he said, were optimal to organise production and frame foreign trade. “Rule of law was the most important cornerstone that society could have in moving forward and promoting civil rights.” These three characteristics of deep globalisation add up to the triumph of the West.

Innovation was seen mostly as the business of big firms, in the form of manufacturing corporate reinvention. During this period, mostly large corporations were thought to have the necessary R&D resources to promote innovation. For example, IBM “was a company that used to manufacture machines, tangible things, hardware, but they still realised that the future is not necessarily going to be in things that are concrete...so they moved away from hardware towards the future of software, the embryo of what was later called data systems or cloud computing,” Troyjo explained.

Other characteristics of this era were the perception that the world might feature a single superpower – the United States as “a hyperpower” – and the rise of Asia. The final characteristic discussed by Troyjo was the sacrifice of national sovereignty. He said that nations, “in order to gain economies of scale or in order to avoid the perils of war, would be willing to sacrifice some of [their] sovereignty and autonomy on behalf of a regional integration.” The

European Union not only has a common currency, it also has a common high court and a common parliament. Regional integration was also evidenced by NAFTA or MERCOSUR.

**De-globalisation (2008 to present):** After the Lehman Brothers shuttered, reliance on global institutions began to falter. The values central to deep globalisation are being severely challenged. Other characteristics having to do with the centre of innovation and global powers have also shifted.

Troyjo explained, “Unfortunately, there is a big question mark in some countries about the superiority of free markets. On the other hand, there is a notion of innovation that is also related to the possibility of putting together seed money, the right technological atmosphere, a very strong entrepreneurial sentiment that leads to start-up innovation. So it's a different kind of innovation paradigm that adds up to the corporate reinvention that you saw in deep globalisation.”

In de-globalisation, although the US is definitely the leading actor, it shares the stage with China, which has been growing at a rate of above 5 percent a year compared to the American average of under 1.5 percent over the last decade. By 2030, China may overtake the US as the world's biggest economy not only in PPP terms, but also in nominal GDP terms.

Large, wealthy corporations are not the only home of innovation in this period. Now the world looks to start-ups. “During deep globalisation, we always thought that the integration processes were automatic and inevitable and never ending and they would only go forward,” he explained. But this is no longer the case. “Once again there's nothing to illustrate the point better than the renegotiation of NAFTA, now it's the USMCA United States-Mexico-Canada Agreement. Or Brexit, the UK decided to pull out of the European Union.”

“Is de-globalisation as an ecosystem for power, prosperity and prestige going to be the dominant framework for the next 20, 25 years?” he asked.

**Re-globalisation (2020 to ?):** Now, we may not be there yet, but “there's a new world rising that will be the result of different characteristics.” Primarily, the superpower competition between the US and China, which can't be expressed in terms like “trade war” because “the degree of interdependence is huge”. The top trading partner of China is the US and the

US' main trading partner is China. With close to two billion dollars in trade flows every 24 hours, this cannot devolve into an adversarial relationship.

A second characteristic is the rise of emerging markets. Troyjo explained, "Probably 2020 is the watermark year in which the G7, the seven most advanced traditional industrial economies of the world, is overtaken by the E7 of China, India, Brazil, Russia, Indonesia, Mexico and Turkey." The E7's global GDP will represent a bigger "slice of the pie than that of the G7."

Related to emerging markets is the rerouting of global supply chains and the emergence of **Chindia** (China and India). "Global value chains (GVCs) are going to continue to be with us," he said, "but we were used to a concept in which we're talking about Made in the World goods." Consider how a tennis ball is manufactured – it's no longer made in just one country. Troyjo said that a single tennis ball is now made in about 14 countries, including "aerodynamic design in one country, glue at a second country, packaging at a third, marketing at a fourth" and so on. But other countries, such as Brazil, may also benefit from this rerouting of GVCs, if they continue to implement modernising and market-friendly structural reforms.

The fourth characteristic of re-globalisation is the **Fourth Industrial Revolution** in which talent plays as much a role as a manufactured object. Troyjo predicted, "We are going to enter into a phase of re-globalisation which will be very much the result of the interaction of these four very important drivers."

### **Great differentiation**

As we straddle the eras of de-globalisation and re-globalisation, Troyjo suggests the following as the best way forward for a CEO in an emerging country:

- Watch the rerouting of global supply chains: "CEOs have to be very mindful of this combination between cost and talent so that they can reroute their global value chains in the most efficient manner."
- Keep an eye out for efficiency, while balancing protectionism. "Even countries that have championed free markets in the past have come up with very stringent local content policies. But this brings about loss of efficiency and I think Brazil is a classic case of how a closed economy does not perform well. Brazil's economy has been stagnating for nearly 40 years but now that is beginning to change structurally."

- Be a good example: In a challenging global environment, the good examples stand out. “Brazil, for example, is integrating its economy with the rest of the world. It's privatising. It's now very dynamic in terms of concessions, especially when it comes to infrastructure investment. It's bringing down the relative size of the role of government in the economy. So pay attention to the good examples that stand out, particularly in times of a very challenging global scenario such as the one we have at present.”

CEOs should also consider how their firms can be a welcoming place for talent. As we saw in the most recent [Global Talent Competitiveness Index](#), adaptive talent – those skills that are exclusively human like creativity, curiosity, enthusiasm, leadership, empathy and compassion – is what makes the difference in addressing complex problems and seizing distant opportunities.

### Turning the corner?

As Troyjo spoke at INSEAD's Europe campus, the novel coronavirus was making its way around the world, disrupting supply chains, and possibly prolonging the current period of de-globalisation. For example, France's Finance Minister [Bruno Le Maire](#), defending his recent suggestion that more goods like batteries should be manufactured in France or the European Union, said “It's not protectionism, it's just responsibility” as the flow of goods from China dries up.

If re-globalisation is around the corner, its characteristics will reflect not only technological and ideological disruptions, but also a world that has experienced a massive drawback of globalisation in the form of a pandemic that has quickly jumped borders.

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