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The end of hyper-globalisation – what is next? The United States-China standoff or peaceful economic co-existence?

Since the nineties, the global economic order was premised on a rules-based system of global integration; given the global dominance of the United States (US) in terms of both political and economic power, the rules were predominantly US-made and favoured deep global economic integration with, as a corollary, the continued expansion of democracy and human rights.

The thinking was not so much that domestic agendas did not matter, but rather that the benevolent forces of global trade and integration would raise all tides sufficiently to take care of domestic economic and social pressures, or that it would create adequate value that winners could compensate losers through domestic redistributive measures. What followed was an era of hyper-globalisation that did indeed create not only winners and losers, but also both domestic and global tensions that did not previously exist.

Hyper-globalisation as a global system of integration and cooperation is over; the notion that prioritising international integration will not come at the expense of domestic social cohesion and inclusion has proven gravely fallacious. The complementarity simply does not exist in the way it was envisaged. The US-led drive towards deep economic integration also did not blunt global conflict or strengthen democracy globally, which has been receding significantly for a number of years according to democracy indices.

What went wrong?

Well, paradoxically, countries that gained the most from participation in global integration seem to be the ones that did not comply with the spirit of liberal internationalisation, of free movement of goods, capital and labour across national borders. China, for instance, intervened quite significantly to promote internal objectives and grew spectacularly, whereas Mexico opened up for free trade and capital flows to its own domestic detriment.

The distributional consequences of hyper-globalisation turned out to take a different path than envisioned. Winners and losers did indeed materialise, as was anticipated, but a compensatory mechanism did not automatically kick in, leading to rising inequality, and declining domestic integration and social cohesion, in the US especially. The middle-class was particularly hard hit, which led to rising nationalism and diminished voter support for policies prioritising liberal internationalisation over domestic cohesion. Political accountability also suffered, with globalisation often presented as an unstoppable, irreversible force that has overpowered domestic imperatives, one which societies wishing to benefit from the potential gains would have to learn to live with.

A significant consequence of the drive towards global integration was China's emergence as a global force, lifting its population out of poverty through extraordinary growth, albeit without democratising or expanding the human rights of its vast citizenry. Rather, prosperity was offered in lieu of these Western rules of political and social organisation. China's growth engine is however stalling and the spoils of the capitalism it has dabbled with may no longer be on offer to satisfy its weary, post-pandemic population. The implications of prolonged lockdowns and the realities of an illiberal existence have taken their toll. Also, even after the one-child policy has been relaxed, the Chinese demographic is emulating the Western trajectory of depopulation, which predicts that the future labour force may make a continuation of current production output, productivity levels and low wages all but impossible. A shrinking youth population changes the demographic dynamic significantly; a young population is associated with consumption-driven (if inflationary) economic growth, whereas a population bulge around middle age means less consumption while saving for retirement takes precedence. In an aging population therefore, growth would have to be investment driven. It is not clear yet what follows when this majority cohort, middle-aged yet still working, reaches retirement and exits the labour force[1].

Transitioning out of hyper-globalisation may proceed along a few possible paths[2]

Harvard economist Dani Rodrik cautions that deglobalisation, that is, a reversal towards autarkic conditions, will besides being unlikely, also be detrimental. It would entail an implosion of world trade and decoupling of global partnerships, both of which forfeit huge potential gains to be had from benign forms of internationalisation.

An alternative scenario may involve a frozen power rivalry between the US and China, each weaponizing their particular geopolitical advantage: the US may assert its economic and political power, while China may flex some military muscle, perhaps by using its weapon systems to disrupt maritime oil flows from the Persian Gulf to North East Asia. Geopolitical expert Peter Zeihan however predicts that such military action may force oil tankers along a longer deep-sea route, out of reach of China's military capabilities, in essence neutralising the threat of the Chinese system[3].

A hardened standoff between the US and China will produce a risky scenario for developing countries that currently rely on relationships with both powers as trading and investment partners; they may be forced to choose sides with detrimental consequences for their domestic development agendas either way.

A third, more likely route may be what Rodrik refers to as a "thinner but healthier" form of globalisation that allows trading partners to maintain primacy of their domestic economic, social and environmental agendas while stopping short of "beggar-thy-neighbour" initiatives. An important facet of the reintegration of domestic economies and rebuilding of the social cohesion previously fractured by large inequalities would be a "good jobs" or "productivist" agenda[4]; that is, domestic policy focusing on creating middle-class jobs through public-private partnerships and cooperation. It is also premised on public-private trust and good governance, as well as public investment in infrastructure, skills development, health and the green energy transition.

Thin globalisation entails an economic coexistence of different systems, each with rules and safeguards and the right to protect their standards but not to export them across national borders. The prevailing narrative underlying the global order then shifts from the hyper-globalisation maxim of "helping ourselves by helping each other", to "helping each other by helping ourselves". In essence, healthy economies have more to offer and to gain from internationalisation than fractured ones.

1 http://www.mdtampin.gov.my/sites/default/files/webform/the-end-of-the-world-is-just-the-beginning-mapping-the-collapse.pdf

2 https://www.youtube.com/watch?v=qy794BqUI08&t=2209s

3 https://www.youtube.com/watch?v=jU0cSrV5qvU

4 https://newforum.org/en/rodrik-and-kukies-in-conversation-how-to-create-good-jobs-in-times-of-war-and-inflation/

What does it mean for the economy and the insurance industry?

There are potentially two paths of impact:

- **In respect of relations between the US and China or China and Taiwan, amongst others:**

  If the relationships between these economies deteriorate as geographies shift away from hyper-globalisation practices, this will cause inflationary stresses globally as conflict and the resulting uncertainty drive up commodity prices and interest rates.

  This will cause the cost of living to rise and consumption and investment expenditure to fall, eventually resulting in lower economic growth prospects. The stress of higher costs of living with elevated interest rates could impact policyholders across most economic LSMs and groups. For the lowest LSMs this could mean lapsing of policies and for middle LSMs we would expect to see the buying down of benefits to reduce premiums. In times of economic stress, retirees are more likely to take a larger portion of their retirement savings upfront to fund living expenses – this reduces the overall investment in underwritten retirement products. Competition on fees related to savings products and more liquid investments will squeeze the already tight margins on investment products underwritten by life insurers. In the non-life insurance industry, history has shown that policyholder behaviour when it comes to no-claims bonuses changes, will result in individuals opting for cash today rather than a promise some time down the line. There is also a strong correlation of claims fraud to economic hardship, with policyholders rationalising unethical practices in light of their own conditions.

  The same outcome would be true for domestic issues if they do not change for the better i.e. a continuation of the deterioration of infrastructure and public services. Increased domestic pressures may result in further sovereign debt downgrades and even higher interest rates to compensate for the higher political and economic risks.

  It is not all doom and gloom. Insurers offering better value for money could benefit from policyholders buying down on benefits. This is a time for the loyalty programmes many insurers have introduced in recent years to shine; the combined bundle of benefits may outweigh an individual concern over premium pricing – if the benefits are articulated clearly. Changes in no-claims bonus behaviours are not necessarily detrimental to insurers who can handle short-term cash flow strain better than policyholders. This is also a time for insurers' "customer-centricity" ambitions to come to the fore, with the short-term cost of targeted interventions potentially outweighing the long-term cost of a lapsed policy. Technology and digitisation provide excellent tools to encourage this interaction and restructuring. The range of options for back-office automation, optimisation and digitisation available now, will also allow the forward-thinking insurer to cut costs and consequently offer better value for money.

- **With respect to South Africa's political movement away from the West:**

  We can speculate or make the assumption that on the global stage South Africa could be perceived to be a higher risk (less democratic, more authoritarian, etc.). This may impact the ability to attract needed foreign direct investment (FDI) flows, resulting in increases in borrowing costs (fewer borrowing options and costly movement of current trade relationships) as well as currency depreciation and inflation.

  These economic consequences would be met by tighter monetary policy, increases in the cost of living and increased policy lapses, diverted premiums and reduced asset values for the insurance industry. The result would be an increase in the cost of insurance for an industry facing problems of adverse selection and moral hazard. This in turn may lead to overpriced insurance services for lower risks making insurance services attractive only for more costly and unfavourable risks.

In conclusion

The trends highlighted in the international sphere are and have been taking place for some time now. However, the uncertainty of the outcome of the South African 2024 general elections is indicative of risks faced by South Africa over the short-term, with a smaller probability of better governance contrasted against a higher probability of a continuation of the status quo.

This year has also seen the population of India surpass that of China signalling the entrance of another powerful protagonist into the global geopolitical arena. Will India come to represent a democratic counterbalance to the might of China or emerge along a yet unseen path of its own choosing? Will it embrace globalisation or focus front and centre on its domestic environment? Only time will tell. What is certain is that the world we live in today will continue to adjust and change and we will need to adapt and change with it to take advantage of opportunities that will present themselves.