Lonnie Frisby: Welcome back to Navigating Business. I'm Lonnie Frisby, Head of Communications for Commercial Banking in Asia-Pacific. And in this episode I'm joined by Sandeep Uppal, our Global Co-Head of International Subsidiary Banking.

After decades of growth in world trade, economic globalisation has hit a major roadblock. Rising trade tensions between China and the US have unraveled a lot of this growth, and the devastating impact of the current COVID-19 pandemic is being predicted to change global investment and trade for good.

So what will the next phase of globalisation look like?

To discuss how all of this will impact the way international businesses operate, I'm pleased to welcome, Sandeep.

Now Sandeep, the prevailing model of globalisation has been under stress in recent years and we've seen the pandemic really accelerate that. What are the factors do you think are involved in this trend?

Sandeep Uppal: Lonnie, firstly, while we have observed this level of stress in recent years on globalisation. True to say that it's been around for decades in some shape or form. While the longer-term trend of globalisation is definitely on the growth path but every now and then, like an economic cycle we do see a level of correction. So I believe what we are experiencing at the moment is a level of correction, but the longer-term prospects for globalisation still hold.

Having said that, there are few factors which kick in into the current level of what I call correction. Firstly, rising protectionism. Now we've seen across the world that most countries, if not all are looking down or discouraging imports. On the other hand, they're all welcoming FDI and capital into the market. That poses a challenge for the way MNCs work and in a way that goes against the free flow globalisation we have seen.

Now this is not isolated because it's also arising from the growing nationalism we've seen across the world. And the growing nationalism is essentially enforcing the belief that country comes first and that gives the rights to protectionism. MNCs, who have been keeping steer of geopolitics for a number of years have now woken up to the fact that this is another risk factor they need to address and they're learning as they go along.

And finally, if that wasn't enough comes along COVID which has given new challenges for MNCs to work on. One which we're hearing increasingly from our clients is along supply chains, and one factor this has exposed is really the cross border nature of the ecosystems. If we look at historically, at the books of multinationals there's not that much of concern where the goods are produced. Because end of the day, they were put on a ship and sent to wherever they were required.

Now with COVID, it's not as simple as that and this has introduced a new element of risk, which they call physical distance. Now that's something which we'll not emphasize because everyone just assumed that if you took a flight which took 10 hours, it was just 10 hours. But now the physical distance, the cross border the shipping time is all coming into play. So really, these are the three challenges or trends we see for multinationals which is making life difficult and coming in the way of globalization.

Lonnie Frisby: So we've heard a lot of commentary around the end of globalisation. How do you see multinational corporations responding?

Sandeep Uppal: Let me address the first part at the outset, I believe at the best we would see a level of slowdown due to lower incremental FDI. But at the end it's practically impossible, at least over the coming decades to see an end of globalisation.

In support, I'll put out a simple fact and that is MNCs have cumulatively invested globally around USD$32 trillion of FDI. That is equivalent to 38% of global GDP in 2018. Now these funds are not stocks and shares. These funds are mostly invested in physical assets and also at times, in countries where the process of repatriation could be tedious to protect at the least. Thus, this pool of investment could take decades to drain out. Thus, as long as the 38 trillion is out there even if you don't see any incremental FDI, we should expect globalisation to be around for a very long time.

On the contrary multinationals may work harder to make this investment of US$32 trillion work for them that much more. And thus, they would look at the high return areas, for example Asia and 7 trillion of the 32 trillion, which MNCs have invested is in Asia. So in a way, you could see multinationals get a lot more active in parts of the world which offer higher returns.

Also, many countries are discouraging imports but at the same time they're rolling out the red carpet for FDI. Now that causes an issue because while a country may wish to produce specific goods locally, but they may not have the necessary skill sets with local corporates to do so. Thus, MNCs are progressively looking at on-shoring production, which would allow them to produce goods locally onshore to cater the needs of the consumers in that very market.

A great example we hear is, from number of multinationals they reference to in China for China that is produced in China for the Chinese consumers. This is a win-win in my mind because this would allow countries to meet their twin objectives of lowering inputs as well as increasing FDI.

Lonnie Frisby : Sandeep, we often talk about globalisation from the point of view of corporates or businesses, but what does it look like for a country?

Sandeep Uppal: So Lonnie, a country in my mind is no different from a company, everyone loves investments. From a country perspective, these investments are called FDI. The reason they love it is that this generates employment on the ground and gives a real boost to the GDP. And that's why when we look around the world, a number of countries if not most of them would really roll out the red carpet to attract these investments.

And over time, we've seen a number of countries getting quite professional and organized in attracting these investments and having either governmental bodies or semi-government bodies, which themselves work as multinationals. Some of the great examples you could say are Singapore, Malaysia, Australia and the list can just go on.

And if you look back FDI has played a key part in the economic journey of most countries. I'll try and bring it out through some examples. Let's look at Australia, which is now the seventh-largest economy in the world. Having said that, it is still relatively a young economy and a young country when compared to many other larger economies. If we look at FDI which has been invested into Australia, over the years it's just under (US) 700 billion dollars. Now that's very significant when compared to the population of the country as well as GDP. It's equivalent to 40% of Australia's GDP. So again, if we look at Australia as an example the role of FDI in the economic prosperity of Australia has to be recognized.

Let's bring the clock back to the current environment. And one country I would really highlight is Vietnam. Vietnam as we know is turning out to be a very attractive destination for a number of sectors. Because of which if I looked at the last figure, which is of 2018, the stock of cumulative FDI in Vietnam was around (US) 145 billion dollars, very significant for a growing economy. And that's equivalent to 77% of Vietnam's GDP. And you can see through those very powerful stats, the role FDI is playing into the growth and development of Vietnam. Now this is a key factor because this is what makes a multinational and a country real partners because it's a win-win for both.

Lonnie Frisby: Ok. It’s not the end of globalisation, but it certainly sounds like a new phase. What do you see If we look into the future, what are the primary characteristics of this next phase of globalisation?

Sandeep Uppal: Lonnie, it's good to see what is holding up and definitely something which is holding up really well even in the current environment are the regional trade agreements, great example being ASEAN. MNCs also believe that risk of investing, let's call it in the neighborhood as lower. Thus, we are seeing a lot more of intra-regional investments.

In fact, when we look at our book itself, we see high growth coming from the Intra Asia corridors itself. Now given the increase in geopolitical risk a keyword for MNCs is diversification. And this is across the enterprise so it's not just about production which is supply chain linked. But also the fact that even for the sales they do not wish to put all their eggs in one basket. Thus, over time we should expect multinationals to be holding their manufacturing in many more markets and selling their products in a more diversified manner globally.

Another aspect which has come out very clearly is the role of suppliers in supporting the broader ecosystem for multinationals. Many multinationals have taken this for granted, but now they're looking at it really closely. And thus, many multinationals are deploying very formal supply chain programs, which are quite comprehensive as they cover areas as wide as finance and sustainability. Thus, supply chain is very much in focus and we do hear new teams emerging. For example, resilience that's a word which is commonly repeated by MNCs, just in case rather than just in time. And as I said earlier, distance is the new risk factor. So these are some new trends we see emerging and how MNCs are responding to that.

Lonnie Frisby: So lots of companies to think about. What do you think are the key implications in this next phase of globalisation for businesses?

Sandeep Uppal: The catchphrase, Lonnie you would've picked up has been the new normal, but in my mind, if I can be provocative there's nothing new and definitely there's nothing normal. What we're seeing is an acceleration of recent trends and what would have really happened over a five-year period is now taking place over five months.

In a way, it's equivalent to us going through a time capsule. Thus, MNCs need to be hugely flexible. A great term I learned recently from one of the CFO was that the elephants need to learn how to dance. That's the kind of flexibility we're looking at. Additionally experience from COVID would make them embrace digital platforms much more so that they can manage the global operations by flicking a button as well as automation. Because again that ensures end-to-end digitalisation. So that could spur the next round of investments for the multinationals.

Another trend we're seeing is that it is the larger multinationals with sustainable business models who are holding up. Thus, over time we could expect fewer multinationals globally but larger in size.

Lonnie Frisby: So even elephants can dance. I'll remember that, Sandeep. Thank you, and thanks very much for joining us today. Sandeep and I will be back in the next episode to take a look at how businesses are reshaping their strategies in light of changing global investment and trade trends. In the meantime, for more insights from HSBC or to listen to the series, visit us at business.hsbc.com.

Thank you very much for listening.