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Globalisation: Good, bad and protectionism

Global Business Voice: The AGN Global Survey
impacting national businesses and the SME



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► Globalisation: Good, bad and protectionism

AGN INTERNATIONAL Ltd
Date: January 2017



The AGN Global Survey – Global Business Voice

A key theme of the World Economic Forum in Davos was the impact on the world of economic and corporate globalisation. President Xi of China opened the Davos with a speech praising the merits of global free trade. But on Friday, US President Trump finished the week calling for a protectionist approach for American businesses.

We sought the views of the AGN Global Business Voice panel on these themes, and in particular their views on the impact on national businesses (those whose markets are mainly within national boundaries).

Globalisation in Crisis?

In 2008 the financial crisis spread rapidly around the world largely due to globalisation, and now much of the world's capital has withdrawn to nation states to support formerly globalised but now asset poor banks. World trade figures have been on the rise but are yet to reach the levels of 2006.

And now just over half our international panel thinks that there is a crisis in the phenomenon of globalisation. In Europe that rises to 60% and in the North American the panel is split 50/50. Malcolm Ward CEO for AGN said "Businesses of many types have long benefitted from reduced trade barriers and increased access to suppliers and markets that have been the perceived rewards of globalisation. It shows the enormity of recent events that more than half of the AGN Global Business Voice panel now see a crisis in globalisation."

Immigration of labor gives globalisation a bad name

The AGN Global Business Voice panel was asked to identify why globalisation has apparently become the recipient of poor publicity. The panel ranked the issues in the following order;

- | | |
|-----|---|
| 1st | Migration of jobs abroad |
| 2nd | Stagnating living standards |
| 3rd | Technologies replacing jobs |
| 4th | Income disparity |
| 5th | Loss of cultural identity (eg. global brands) |

The biggest single issue here for the panel is the migration of domestic jobs overseas. There is no doubt a perception that if an organisation creates jobs in a market where labour is cheaper, this equals the displacement of domestic jobs. In addition it is thought that where free movement of labour is possible, low cost labour migrating from lower income countries into the domestic market fuels competition for those jobs at a lower wage point.

Echoing the calls from many business leaders at Davos, Malcolm Ward said "Offshoring can lead to greater business efficiency, but the consequences domestically can be many fold. We need global leaders and policy makers need to find a fix. Globalisation has helped many communities climb out of poverty, but it has to work for everyone or protectionism will continue to increase".

Globalisation is good for national business

But what does all this mean for national business? Have they suffered as a consequence of incoming global players? Has their market been swallowed up by a globalised giant? Far from it. Over 90% of the AGN panel believe that globalisation has been positive for national businesses, because it has provided business opportunities.

Niche markets and nimble players beat global competition.

The panel was asked to rank the top 3 most important strategies for a national business to adopt when being confronted with global competition entering its market.

- | | |
|-----|--|
| 1st | Identify niche domestic and international markets not serviced by the global player. |
| 2nd | Seek sub contract opportunities to supply the global players. |
| 3rd | Collaborate with other industry players to enhance market power. |



As Malcolm puts it "Pragmatism is a key theme here. National businesses should be able to move quickly to find opportunities and gaps that larger global players either lack the agility to address or do not perceive as important".

Of course, there might also be opportunities to sub contract to the global company, but if head-on competition is inevitable national businesses can boost their position by collaborating with other smaller players. Economies of scale or combined purchasing power might deliver cheaper supplier prices.

National business that are going global still face traditional barriers

How true is it that the internet makes it easy for businesses to go global? The AGN Global business voice panel ranked the primary barriers and it turns out there are some familiar issues: No 1 'Compliance with foreign countries regulation and law'. Closely followed by finding reliable offshore business partners or distributors.

- | | |
|-----|---|
| 1st | Over seas regulation and legal compliance |
| 2nd | Reliable offshore business partners or distributors |
| 3rd | Funding foreign investment |
| 4th | Unfamiliar business culture and business practices |

Malcolm observed; "The fact that the funding isn't at the top of the list is encouraging in that perhaps capital is now available in the way it wasn't a few years ago. The top two issues are the 'traditional challenges' of globalising a business. The internet provides a sales channel, but you still have to comply with local taxes, customs duties, quality and safety regulations. And it has always been a challenge to find reliable offshore business partners - someone who isn't going to leave you high and dry - but members of an organisation like AGN are ideally placed to help a business navigate exactly these challenges. In addition, there is usually destination government support and advice for companies entering their markets."

And if protectionism carries the day?

Finally - perhaps the opportunity for national businesses is within a protectionist national framework. Business people like a deal and, if the incentives are available, then could it work? Trump is proposing large import tariffs for offshore produced goods, balanced against a dramatically reduced rate of corporation tax, reduced typically from 35% down to 15%, to encourage domestic investment.

However, the AGN Business Voice panel mostly disagree; 73% think such a move would be negative for national business. But perhaps in a reflection of the times, not everyone sees it that way; 20% of the European panel members think such a move could benefit national businesses, and the North American panel members are split almost 50/50.

In conclusion

Malcolm observed "Protectionism has historically been associated with increased costs and reduced consumer choice - opinions clearly vary, but there is little to suggest that this isn't still the case. And if globalisation has benefitted business, increased choice and reduced costs for the better off, as well as contributed wealth and development elsewhere, it is difficult to see the globalisation genie going back in the bottle.

And assuming globalisation is here to stay, perhaps national businesses have the key opportunity to be a positive counterbalance. Their pragmatism, agility and entrepreneurialism, driving domestic growth on the back of global business, that provides employment and wealth creation at a local level".

It is an indication of how the world has changed that we conclude with a quote from President Xi's speech at Davos. "It is true that economic globalisation has created new problems, but this is no justification to write economic globalisation off completely. Rather, we should adapt to and guide economic globalisation, cushion its negative impact, and deliver its benefits to all countries and all nations".

Notes to editors

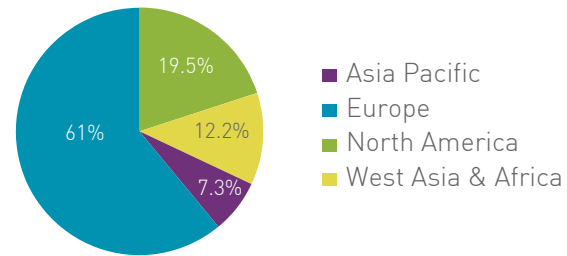
AGN "Global Business Voice" is a quick fire poll of senior and respected business advisors from some 40 independent accountancy and financial advisory firms based in the major commercial centers across the world.

Our 'opinion leaders' are a powerful proxy in gauging the views of the national and small and medium sized (SME) businesses whom they serve, on emerging issues that are impacting the global business agenda right now.

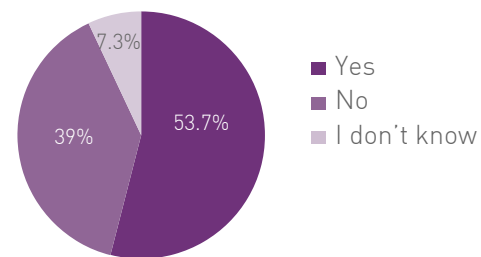
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Annexe 1/2

Participant's region:



Q1: Is there a crisis in business globalization?



Q2: Why do you think business globalization has come under fire?

- 1st highest response:** Migration of jobs abroad
- 2nd highest response:** Stagnating living standards
- 3rd highest response:** Technologies replacing jobs
- 4th highest response:** Income disparity & Stagnating living standards
- 5th highest response:** Loss of cultural identity (eg. global brands)

Q3: What affect has globalization had on national business?



Annexe 2/2

Q4: What are the key factors that might inhibit national businesses from globalizing their business?

- 1st highest response:** Overseas regulation and legal compliance
- 2nd highest response:** Reliable offshore business partners or distributors
- 3rd highest response:** Reliable offshore business partners or distributors & Funding foreign investment
- 4th highest response:** Unfamiliar business culture and business practices

Q5: How should national business respond to the competitive threat of corporate globalization in their domestic markets?

- 1st highest response:** Identify niche domestic and international markets not serviced by the global player
- 2nd highest response:** Identify niche domestic and international markets not serviced by the global player & develop their own international marketing/expansion strategy
- 3rd highest response:** Collaborate with other industry players to enhance market power
- 4th highest response:** Seek sub contract opportunities to supply the global players

Q6: If nation states opted for a more protectionist approach to trade how would this impact national?

