



AGF INSIGHTS

MARKETS

# Has technology become an enemy of globalization?

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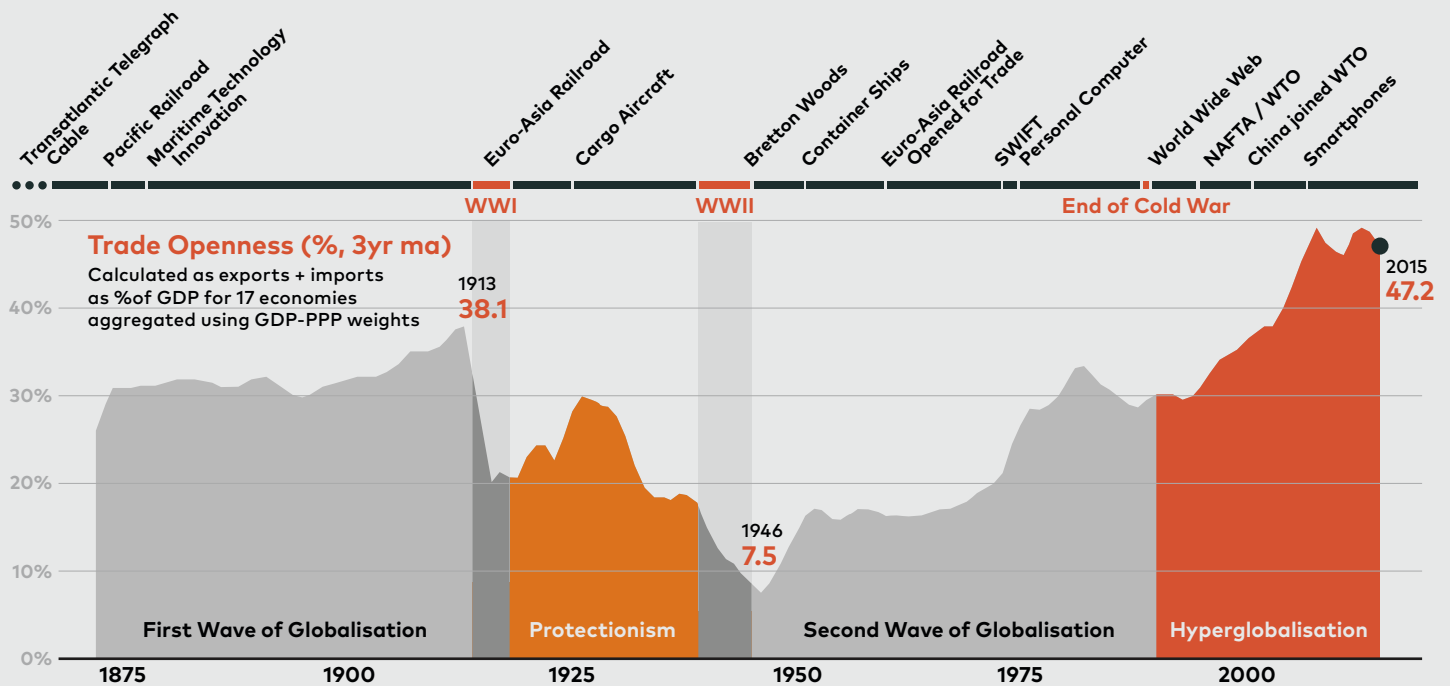


**Restrictive trade policies and populist politics are growing concerns of investors who believe these developments to be serious hazards to globalization. But new technological advances in automation and artificial intelligence may be even bigger risks to the global economy's interconnectedness and the impact on financial markets should not be underappreciated.**

Once a key element in bringing the world together, technology has now become a catalyst for deglobalization through its growing influence on the global value chain and those who participate in it.

This is in stark contrast to much of the past three decades, when use of the internet and general connectivity sprung a period of "hyper globalization" highlighted by an increasing number of businesses gaining greater access to emerging markets and expanding production abroad.

### Globalisation cycles: from Golden Age to Hyperglobalisation



Source: NBER Macrohistory Database

The added benefits of lower taxes, cheaper labour and favourable credit conditions provided these mushrooming businesses with an arbitrage opportunity to manufacture goods more cost effectively than they could have previously in their own countries.

As a result, developed market multinationals have been able to generate better net margins and have often outperformed their more domestically-focused counterparts. Emerging market economies, meanwhile,

have increasingly become the benefactors of investment flows and have gained a growing share of the global economy.

But this rapid rise in globalization has waned more recently and may be reaching a tipping point. In large part, this is due to advancements in technology that are making local goods production more cost effective and global trading partners less compelling.

Take Adidas, the global athletic brand giant, for example. The company has just built an advanced automated facility in Germany using 3D printing that promises to develop, manufacture and restock footwear in a matter of days, as opposed to orders from China taking many months, all with a fraction of the standard workforce. By improving efficiencies, localized production also has the potential to strengthen company balance sheets with reduced inventory/storage costs, lower capital spending, less cash outlay (and therefore improved working capital), shortened transition lag and overall improved return on invested capital. The downside is that easy access to technology such as 3D printing which enables localized production also lowers barriers to entry, potentially increasing competition as well.

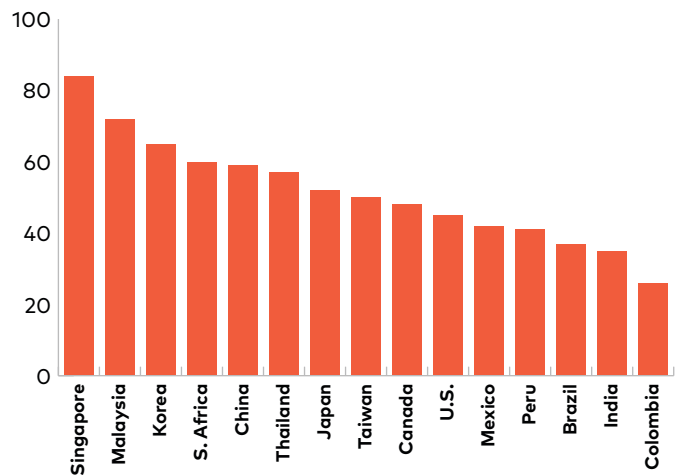
**The greatest impact, however, may be felt by emerging market economies, where participation rates in the global value chain are higher than anywhere else in the world.**

From an investment perspective, this disruption to the global value chain has far-reaching implications, leading to a new set of opportunities and risks. Those who stand to benefit include companies with strong intellectual property and patents whose goods and services cannot be easily genericized. Multinationals with strong brands may hold up well too, but those without may find their exposure to the global value chain less advantageous going forward.

Other winners could include commodities and agriculture. Items like wheat and copper cannot be displaced by technology and can only be produced in specific geographies. Conversely, global shipping companies could suffer as international trade of manufactured goods declines and more localized production reduced demand.

The greatest impact, however, may be felt by emerging market economies, where participation rates in the global value chain are higher than anywhere else in the world. A silver lining for emerging markets may be that domestic consumption is increasingly rapidly and moving online. Key technology companies are based in emerging markets and increasingly becoming global players.

**Participation in Global Value Chain**  
EM Asia appears most exposed



\* Foreign value added used in country's exports (upstream) plus value added supplied to other exports (downstream) divided by total exports

Source: Unctad, Barclays and AGF Investments Inc. as at March 2017.

Collectively, economies and their respective constituents can protect themselves from a disruption in the supply chain through strong domestic consumption and a highly-educated labour force that is equipped for technological change. Companies with high research spending and strong balance sheets may also benefit in this shifting environment from their ability to quickly invest in new technologies. Like all inflection points, the technological forces influencing globalization are expected to have a considerable impact on financial markets regardless of the potential for trade wars and recent waves of populism that have spawned Brexit and other political movements around the world.

By positioning for a less connected global economy now, investors will give themselves a better opportunity to profit from it later.



**Stephen Way, CFA**  
**Senior Vice-President**  
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Stephen Way leads AGF's global equity team in Toronto, while maintaining portfolio management responsibilities for their global equity and emerging markets mandates. As the architect of the EVA-based (Economic Value Added) investment process used for these industry-leading mandates, he is supported by a team that uses their collective industry experience and globally diversified cultural backgrounds to locate opportunities unrecognized by the market. Stephen is also a member of the AGF Asset Allocation Committee (AAC), which consists of senior portfolio managers who are responsible for various regions and asset classes. The AAC meets regularly to discuss, analyze and assess the macro-economic environment and capital markets in order to determine optimal asset allocation recommendations.

Stephen holds a B.A. in Administrative and Commercial Studies from the University of Western Ontario. He is a CFA® charterholder and a member of the Toronto CFA Society.

Stephen's industry experience began when he joined AGF in 1987. In 1991, he established AGF's wholly owned subsidiary AGF International Advisors Company Limited in Dublin, Ireland and ran the operations as Managing Director until 1994.



**Andres Perez**  
**Associate Portfolio Manager**  
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Andres Perez is an associate portfolio manager responsible for the Industrials and Consumer Staples sectors. Prior to joining AGF, Andres was a Director with the Fundamental Investment Group at UBS where he specialized in global and emerging market equities as a generalist for the fund. Prior to that, he was a portfolio manager at Citadel Investment Group focusing on global equities and at Moon Capital Management where he ran the global materials book for their emerging markets equity fund. Previous to that, he was Vice-President of equity research at Morgan Stanley focusing on Latin American Materials and an equity analyst for BankBoston Asset Management based in Brazil.

Andres earned a BA in Economics and International Relations from Tufts University and also studied at the London School of Economics. Andres is fluent in Portuguese and Spanish.



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