

Will Donald Trumpism Bury Davos Elitism?

January 2017



Neil Dwane
Global Strategist

Neil Dwane says the rumbling sound being heard by politicians and power-brokers at the World Economic Forum in Davos comes from a new political avalanche of populism – one that threatens to sweep away decades of pro-globalization sentiment and change the investment landscape.

Key takeaways

- Populism and protectionism seem to be growing stronger around the world; consider the UK's Brexit, Trump's presidential victory and Italy's "no" vote
- These recent events – not to mention important elections on the horizon in France, Germany and the Netherlands – are not isolated incidents, but part of a new political trend
- The previously dominant pro-globalization mindset is being challenged by its previous champions, and not by outside forces like radical Islam or communism
- The multinational companies that benefit most from globalization are facing uncertainty; profit maximization, free trade and conspicuous consumption are in populists' crosshairs
- Investors should expect local and national politics to promote economic self-interest and slow global growth, while governments and corporations will want to be viewed as more responsible partners

To the great discomfort of many members of the global establishment, Donald Trump is already much more than the President-elect of the United States. He also sits atop a global political avalanche that began gaining speed in 2016 – through the pro-Brexit vote in the UK, the Republican sweep of the US elections and the resounding "no" heard in Italy's referendum.

The rumblings of this new political force are sure to be felt this month in the beautiful chalets of Davos, the Swiss resort town that has become an annual place of pilgrimage for the most ardent champions of globalization and free trade. For decades, almost every G20

government and Fortune 500 company has sent a delegate to the World Economic Forum in Switzerland, where attendees rubbed shoulders with global power-brokers, celebrities and politicians – not to mention powerful celebrity politicians like Bill and Hillary Clinton.

But today, given the populism and protectionism that seems to be growing stronger with each passing election, perhaps the Davos elites will begin turning their eyes to the Milwaukeees and Middlesbroughs of the world – the places where anti-globalization feelings are among the strongest.

In this mindset, many democratically elected governments have begun to decay precisely because they have been busy protecting their own self-interested goals – not the people they were charged to lead. So in a string of now-historic elections, those who felt overlooked and underestimated gave the boot to pro-Europe elites in the UK, opened the door to a defiantly non-establishment Trump in the US and began setting their sights on more victories to come.

As we discussed at length at our September 2016 Investment Forum, it is important for investors not to view these recent political events – not to mention the many other important elections on the horizon in France, Germany and the Netherlands – as isolated and unconnected. Rather, they are part of a continuum with deep roots.

In economic terms, one of the reasons the previously dominant forces of globalization and free trade are waning is that they have created a growing middle class in emerging markets at the expense of their counterparts in developed markets. In geopolitical terms, as the West failed to solve the challenges of Iraq and Afghanistan, the US has been toying with isolationism – which Trump campaigned upon – just as China and Russia have reasserted themselves on the global stage. All the while, South Korea and Japan's populations continue to age rapidly, and rising populism in Europe is exacerbating that region's existential challenges.

As the political ground shifts, the old guard is being viewed through a much different lens. The previous narrative of the pro-globalization set was that democracy and free markets would prevail, with American exceptionalism as the benchmark against which all others would be measured. That narrative is now being debunked by its own erstwhile champions, particularly Trump's supporters, and not by outside forces like radical Islam or communism. It is becoming clear that the multinational companies who are globalization's ultimate beneficiaries are, like the Davos elites, facing unstable terrain ahead. Profit maximization, free trade and conspicuous consumption by the few are no longer viewed as *de rigueur*, but are actually perceived as the problem.

Perhaps someday, the history books will need to make room for the era of globalization next to the Cold War, which also had an easy narrative of Western capitalism beating Eastern communism: By making the right choice, everyone could benefit, both personally and economically. However, as Lee Kuan Yew notes in *From Third World to First*, Asia was never likely to follow the Western path to democracy – not with its inherent contradictions and unaffordabilities.

Consequently, we as investors should begin to expect local and national politics to impede global supply chains and promote economic self-interest. The efficient allocation of capital will fall, which will be a drag on already-constrained levels of global growth. Yet at the same time, the new political trend will place new demands on the institutions that must deploy this much-needed capital, and there will be a growing call for governments and corporations to be seen as good partners. The practices of tax arbitrage, offshoring and profit maximization for shareholder value may soon be buried – if not wiped out completely. What is left when this storm passes will largely rest in the hands of the people who find themselves newly empowered.

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations.

This material is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association]; Allianz Global Investors Korea Ltd., licensed by the Korea Financial Services Commission; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan. © Allianz Global Investors 2017. 93350 | COMM-150