

Economic Characteristics and Asset Allocation in the Context of De-Globalization

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Abstract. The world's huge economy is often seen as a "whole", and within this huge "whole", there are countless components, the most obvious being is the state, influencing investment strategies and economic behaviors. This article aims to explore key economic characteristics and asset allocation strategies, focusing on family trusts in China amidst this de-globalization trend. The study highlights the necessity for asset allocation to adjust to the evolving economic landscape. To be specific, investors should minimize their dependence on global supply chains and pivot towards localized and regional assets. This includes a greater emphasis on domestic infrastructure projects and technology companies, which are likely to benefit from regional economic policies. Furthermore, it is prudent to increase investments in sectors that stand to gain from national or regional protectionist measures. Staying attuned to the changes in trade policies and government regulations will be crucial for optimizing returns and managing risks in a shifting global environment.

Keywords: De-globalization; Asset Allocation; Family Trusts; Economic Characteristics; Foreign Direct Investment.

1. Introduction

For decades, globalization has been on an inexorable rise, a key pillar fueling economic growth driving inflation and yields down, bolstering corporate profit margins and supporting an upward climb in market valuations. Over the past few years, though, cracks have started to develop in globalization, as populism has seen a resurgence and trade wars have erupted. In the current trend of de-globalization, asset allocation has become increasingly critical as the global financial market faces major changes due to countries leaning towards protectionism. This changing environment heightens the political and economic risks associated with traditional cross-border investments, thus amplifying the significance of geographical and sectoral diversification to hedge against localized economic downturns and regulatory changes. Additionally, the development of regional financial blocs and the reevaluation of reliance on major currencies add complex factors for trust asset managers to consider. Researching asset allocation under these conditions not only assists trust managers in adjusting strategies and finding more resilient investment paths but also strengthens financial planning. This helps protect wealth from the uncertainties of a fragmenting global economy, ensuring stable and sustained growth that benefits future generations.

Economic globalization and economic de-globalization are often viewed as two sides of the same coin, reflecting a complex and evolving relationship between global economic integration and its opposite. Economic globalization refers to the process through which countries become more interconnected through the flow of goods, services, capital, and labor. It evolved at three interdependent levels: international trade, international investment and international production. The intensification of these economic activities has produced different effects in different parts of the world, economic sectors and population groups, depending on the degree of involvement in international flows [1].

This interconnectedness aims to enhance economic efficiency, increase living standards globally, and facilitate international trade and investment. Economic de-globalization, on the other hand, is characterized by a retreat from these integrated global systems, often manifesting as increased



protectionism, trade barriers, and a shift towards more localized or nationalistic economic policies [1].

There has been some scholarly research on the de-globalization and asset allocation. Scholars have different views on the manifestations of "de-globalization", and even have different opinions. For example, Irwin, for example, writes: "The Great Recession of 2008–2010 marked a historic turning point in the degree of global economic integration. Now, in response to the current health and economic crisis, policymakers appear poised to take deliberate steps to reinforce the movement toward deglobalization" [2]. Baldwin contended that the perspective on deglobalization overlooks crucial evidence showing that globalization has transformed rather than ceased. Even though the ratio of global goods trade to GDP reached its highest point in 2008, trade in services has been steadily increasing and now makes up 20% of international commerce [2]. Alicia García-Herrero believes that the collapse of the WTO might be a significant milestone in the trend towards deglobalization, particularly in relation to trade. This is expected to reduce global growth pressures [3].

Cai Fang believes the opposition to globalization is a core proposition of political nationalism and populism, which has rapidly evolved into a non-cooperative anti-globalization strategy. As of 2016, this trend has been very obvious, and it has taken on the new characteristics of the coexistence of political polarization and directional convergence. European populism is approaching politically, forming an anti-globalization wave to curb the acceptance of immigrants (refugees), block the Transatlantic Trade and Investment Partnership (TTIP), and withdraw from international integration institutions, among which the United Kingdom's vote to leave the EU is only the most newsworthy but far from finished off the foreseeable anti-globalization event [4]. Xiong Guangqing believes that the main manifestations of "anti-globalization" are the strengthening of trade protectionism, the aggravation of extreme political tendencies, and the rise of nationalism [5]. Tian Zhengjie and Dong Lu linked "anti-globalization" with China's foreign trade, believing that "'anti-globalization' refers to the phenomenon of negative growth in China's foreign trade imports and exports" [6].

A new term, "reverse globalization," emerged during the Horasis Global India Business Meeting held in Naples, Italy, on June 26-27, 2011. Frank-Jürgen Richter, the founder of Horasis, introduced this term to describe the changing nature of globalization. Richter identified four key characteristics of this evolving phenomenon. Firstly, there is a noticeable shift in economic power towards non-Western countries. Secondly, globalization is transitioning from simple trade and investment to more complex forms of cross-border interaction. Thirdly, The increasing importance of cultural, historical, and spiritual Values are playing a more significant role in globalization. Moreover, Beyond nation-states, cities and regions are increasingly engaging in global activities.

Richter argued that these characteristics have given rise to "de-globalization" but contended that it does not reverse globalization. Instead, he suggested that these factors could enhance globalization by making it more respectful and sustainable.

The purpose of this article is to study the economic characteristics of the de-globalization environment and its impact on the different components of the world's large economy, as well as the factors that need to be paid attention to in asset allocation on this basis, as well as the implications and prospects for the future economy.

2. Economic Characteristics Under De-globalization

The nature of deglobalization processes is largely determined by the desire to implement a policy of technological deterrence, which seems counterproductive [7].

The trend toward reduced global economic integration and increased focus on national interests, has reshaped economic landscapes across the world. This shift reflects a reaction to various factors including geopolitical tensions, economic nationalism, and technological changes. The economic characteristics of this period are marked by several distinct features, which have profound implications for both national economies and global markets.

2.1. Rise in Protectionism and Trade Barriers

One of the most apparent characteristics of de-globalization is the resurgence of protectionism. It is clear that economic globalization has had a greater impact on government economic policy in transition and developing countries compared to developed countries and “with this increased integration, developing countries become more vulnerable to fluctuations in international capital flows and trade” [8]. Nations are more and more adopting trade barriers like tariffs, quotas, and export restrictions. This pattern is fueled by a need to safeguard local businesses from international rivals and lessen reliance on worldwide supply networks. Nations are more and more putting in place trade barriers like tariffs, quotas, and export restrictions. The rise of this trend is motivated by the aim to shield local businesses from international rivals and lessen reliance on worldwide distribution networks. In the case of trade tensions between the United States and China, tariffs on goods exchanged between these two economic powerhouses have noticeably risen. The International Monetary Fund (IMF) has observed that protectionist actions can disrupt worldwide trade and add to economic unpredictability. Moreover, the reasons behind the decline in trade are typically cyclical, including factors like the deterioration of exporting economies or a decrease in prices in the global export market. Several empirical studies on the current trade slowdown suggest that it cannot be attributed to cyclical factors alone [9].

2.2. Reorientation of Supply Chains

De-globalization has prompted a reevaluation of global supply chains. The COVID-19 pandemic exposed vulnerabilities in highly integrated supply networks, leading many companies to seek more localized or regional alternatives. Businesses are increasingly focusing on "nearshoring" or "reshoring" production closer to their home markets. This shift aims to mitigate risks associated with international disruptions and to enhance supply chain resilience. According to a report by McKinsey & Company, companies are reconfiguring their supply chains to balance efficiency with risk management, leading to a more fragmented but potentially more robust global manufacturing landscape.

2.3. Increased Economic Nationalism

Economic nationalism has gained traction in the de-globalized era, with governments prioritizing domestic economic growth over international cooperation. This shift is evident in policies that favor local businesses, encourage domestic investment, and limit foreign ownership in strategic sectors. For instance, countries are implementing policies to boost local industries and reduce reliance on foreign technology. The European Union's emphasis on "strategic autonomy" and the United States' push for "Buy American" policies are examples of how economic nationalism is influencing policy decisions.

2.4. Changes in Foreign Direct Investment (FDI) Flow

Foreign Direct Investment (FDI) patterns are also changing in response to de-globalization. Traditionally, FDI was characterized by cross-border investments aimed at expanding global operations. However, the current trend shows a shift towards regional investments and increased scrutiny of foreign investments. Countries are implementing stricter regulations on foreign acquisitions and investments in critical sectors. The OECD reports that while global FDI flows have declined, there is a notable increase in intra-regional investments, reflecting a move towards regional economic integration rather than global.

2.5. Acceleration of Technological Decoupling

Technological decoupling is another significant feature of de-globalization. As geopolitical tensions rise, particularly between major technology powers like the United States and China, there is a growing divide in technological standards and supply chains. Countries are developing and promoting their own technological standards and infrastructure, leading to a fragmented technology landscape.

This decoupling affects various sectors, including telecommunications, artificial intelligence, and semiconductors. The U.S. restrictions on technology exports to China and China's efforts to develop its own semiconductor industry exemplify this trend.

2.6. Emergence of Regional Trade Agreements

In response to the decline in global trade agreements, there has been a rise in regional trade agreements. Countries are seeking to strengthen economic ties within their regions as a way to counterbalance the effects of de-globalization. Regional trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) illustrate this trend. These agreements aim to enhance trade and economic cooperation among member countries while bypassing some of the barriers imposed by broader global agreements.

3. Considerations for asset allocation and the strategy in Chinese market

The recent global economic changes have indicated that globalization has lost the driving force it once had prior to the current financial crisis. Therefore, there are also times when there is a relative decline, often linked to a trend towards deglobalization and a shift in the global economy towards new levels of efficiency and competitiveness [10]. This part will focus on analyzing the changes of family trust as an important asset allocation product as an example and summarize the trend of the general direction of asset allocation under deglobalization.

3.1. Shift Toward Domestic Assets

Research shows that family trusts, a common kind of asset allocation, are increasingly reallocating their assets toward domestic markets. According to a study by the CFA Institute (2023), family trusts are now favoring investments in local equities, real estate, and infrastructure over international assets. This shift is driven by the desire to reduce risks associated with geopolitical uncertainties and trade tensions. Domestic assets are viewed as more stable and less exposed to foreign exchange risks, aligning with the conservative investment approach typically adopted by family trusts.

3.2. Increased Focus on Diversification

Despite the trend toward domestic assets, diversification remains a crucial principle. However, in the context of de-globalization, the focus of diversification is shifting. A report by McKinsey & Company (2022) highlights that family trusts are diversifying within their domestic markets by exploring various sectors and asset classes. For example, trusts are now investing in technology, healthcare, and green energy within their home countries. This approach helps manage risk while adapting to the broader trend of reducing international exposure.

3.3. Emphasis on Private Equity and Alternative Investments

De-globalization has also led to increased interest in private equity and alternative investments. A report by BlackRock (2024) notes that family trusts are allocating a larger portion of their portfolios to private equity, venture capital, and real assets like farmland and timberland. These investments are attractive due to their potential for high returns and lower correlation with public markets, which can be advantageous in a volatile global economic environment.

3.4. Consideration of Geopolitical Risks

Geopolitical risk has become a significant factor in asset allocation decisions. Research by the Global Investment Research Institute (2023) indicates that family trusts are actively incorporating geopolitical risk assessments into their investment strategies. This involves evaluating the impact of political instability, trade policies, and regulatory changes on their investments to navigate the complexities of a de-globalized world.

3.5. Sustainability and ESG Factors

The rise of de-globalization has also intersected with the growing importance of sustainability and Environmental, Social, and Governance (ESG) factors. A study by the World Economic Forum (2023) reveals that family trusts are increasingly integrating ESG criteria into their investment decisions. The focus on sustainability aligns with long-term wealth preservation goals and responds to the rising demand for responsible investing. Trusts are incorporating ESG considerations into their domestic investments, reflecting a broader trend toward socially responsible investing.

3.6. Chinese Market

In terms of the Chinese market, first, from the perspective of changes in the supply and demand of money, M1 is on the low side, and the effective demand is insufficient, but from the perspective of contrarian investment, it is a good time to invest, if investors wait until the effective demand is very strong to invest, the asset price will be relatively high; Second, the demand for money and social finance are gradually recovering, and in the near future, the government's debt expansion is dominant, and the government departments are still actively financing, and this part of the financing funds will form the actual workload of the economy in 2024, pushing up and supporting the development of the overall economy. From the perspective of inflation indicators, China's CPI and PPI are now negative, but in the future, with the government's financial force, it may be expected to reverse the downward trend, and the central bank is still in a state of easy money and easy credit.

In the future, China's bond assets are opportunities, long-term bonds are more, because the real interest rate is too high, and now it is still in an environment where the CPI is negative, so it needs to help the overall economic development through monetary easing. In terms of bond assets, the next trend is to overweight U.S. bonds and moderately overweight Chinese bonds; In terms of equity assets, they tend to overweight large-cap value and growth stocks and underweight small-cap stocks. Commodities, structurally overweight China's infrastructure and real estate chain varieties, underweight overseas economic and inflation expectations downward revision, underweight precious metals. The overall need to be cautious, essentially because there is no significant room for significant growth in global manufacturing investment, but on the other hand, it is also necessary to pay attention to the structural opportunities brought by China's industrial policy, and some industrial chains will still have growth points in 2024.

4. Revelation and Outlook

4.1. Analysis

To look over about the history of family trust in China, 2013 is a key point. Since 2013, it can be concluded that family trusts have entered a period of rapid development by observing the stock size of wealth management service trusts. In 2021, the Civil Code was implemented, adding testamentary trusts to promote the diversification of family trusts. In June 2023, the new regulations on the three categories of trust business were promulgated to guide the development of family trusts. At the start of 2024, family trusts' assets under management have grown to 900 billion yuan, making up 2% of the overall trust scale. Over the last decade, the family trust market has surpassed one trillion yuan, experiencing an annual growth rate of over 50%. This sector is highly sought after by wealthy individuals and recognized by financial institutions, as shown in Figure 1.

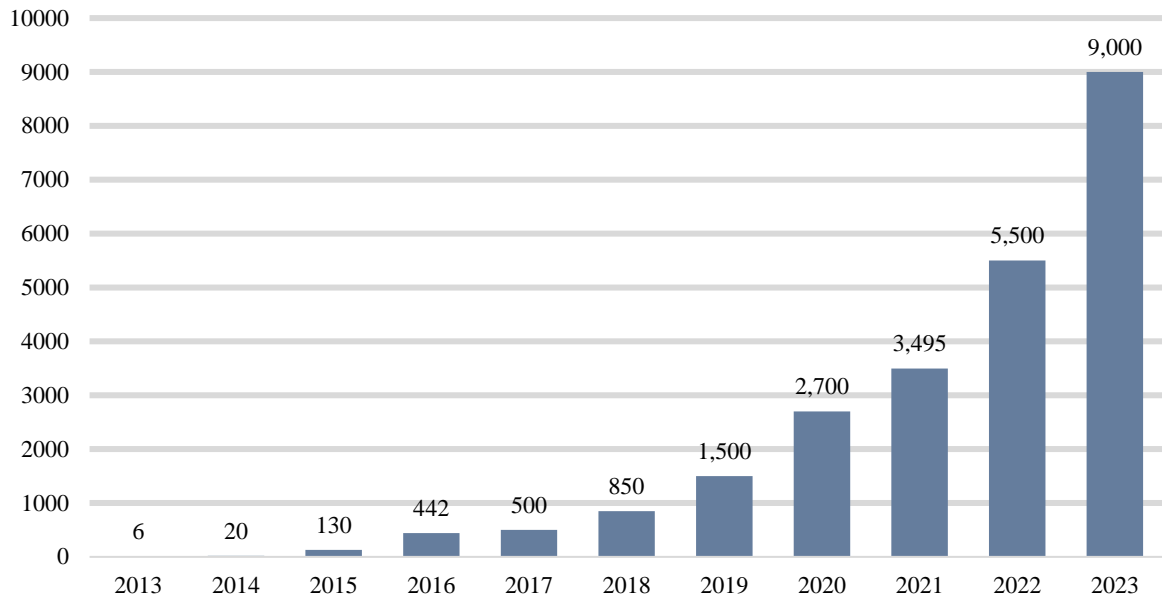


Figure 1. Wealth Management Service Trust Stock Scale (100 million yuan)

In terms of Chinese market of family trust, I personally believe that its rapid development is due to the growth of private wealth and the upgrading of wealth management demand after the reform and opening up, as well as the promotion of supervision to return to the origin of the trust industry. Looking ahead, the trend of family trusts has attracted much attention in the industry because of the following reasons:

4.1.1. Quantitative trend.

In recent years, the number of high-net-worth families in China has surged, reaching 2.08 million according to the 2023 Hurun Wealth Report, and it is expected to continue to grow at a compound growth rate of about 11% in the next two years, driving the vigorous development of the private wealth market.

4.1.2. The expanding scale of investable assets has also expanded significantly.

In 2022, China's total personal investable assets reached 278 trillion yuan, with a three-year compound growth rate of 7%. By mid-2024, it is approaching 327 trillion, and it is expected to exceed 330 trillion by the end of the year. High-net-worth individuals hold about 31.83 million assets per capita, with a total holding of 101 trillion yuan, demonstrating their strong wealth accumulation power.

4.1.3. Trend of changing demand.

High-net-worth clients are shifting from single value-added to comprehensive wealth management, covering wealth inheritance, tax optimization, charitable donations and risk management. More than 40% of the respondents regard wealth security and inheritance as a key need, and prefer stable returns and risk control, with an increase in the proportion of cash and fixed income products. Instruments such as family trusts and charitable trusts are becoming increasingly popular to achieve the dual goals of wealth inheritance and social responsibility (Figure 2).

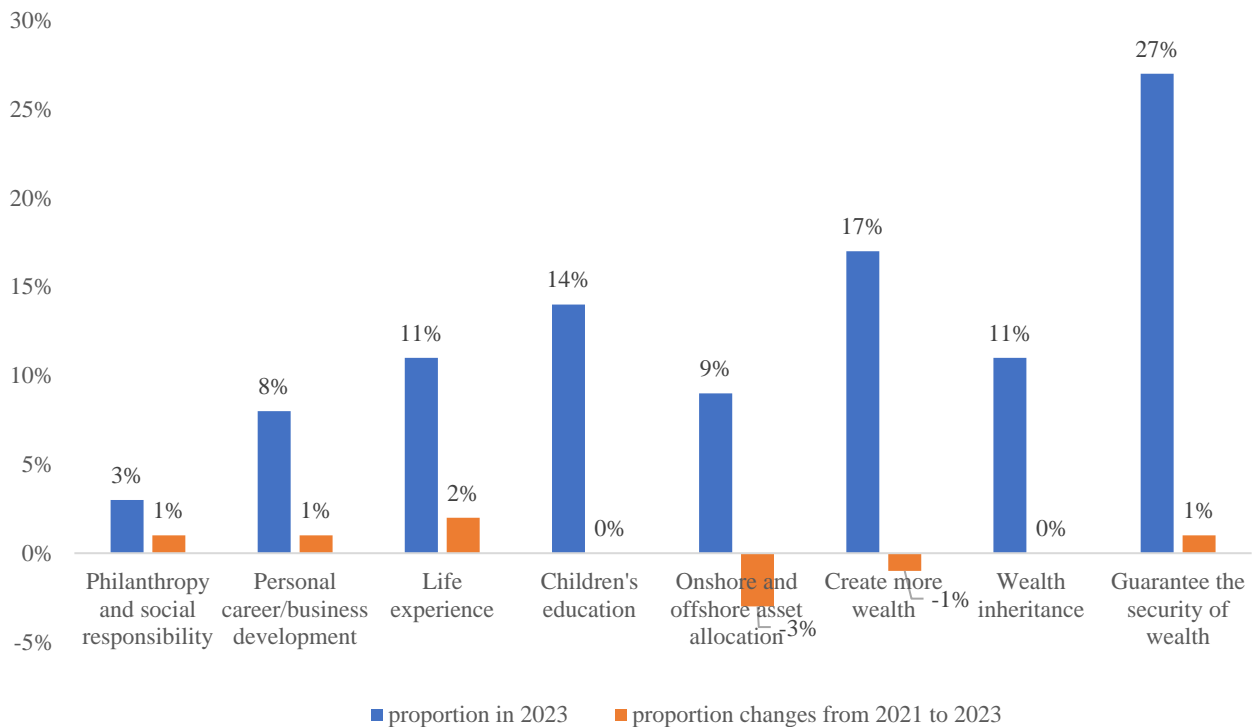


Figure 2. The ratio of the number of mentions of various types of needs to the total number of mentions (2023)

4.1.4. The nature of Family Trust.

Family trust is now the primary financial legal instrument for safeguarding wealth and passing it on to high-net-worth individuals. With its foundation in the concept of "trust independence", family trust is well established in both China's Trust Law and legal proceedings. Its "property risk isolation" and "wealth inheritance" functions are verified by the "2023 China Private Wealth Report": the first choice for high-net-worth individuals to inherit includes insurance, real estate and family trusts, and the latter mention rate has soared, from 16% to 73%.

At present, family trust assets are mainly funds, asset management plans and insurance funds, accounting for more than 95%, while potential assets such as equity and real estate are yet to be developed. Capital and insurance trusts still dominate the market, and equity trusts have become the new favorite. From 2019 to 2023, equity family trusts have been active in innovation from initial exploration to acceleration, but the total proportion is only 2%, far lower than that of the international market, indicating huge growth space.

4.2. Obstacles and Breakthroughs of Family Trusts

Despite the rapid development of family trusts, they still face challenges such as the lack of a registration system, insufficient innovation, and a tax system that needs to be improved. In terms of the trust property registration system, due to the lack of it, the transaction cost of trust property such as real estate and equity is high, which hinders the widespread application of family trusts. In terms of the tax system, there is a gap in the tax regulations for family trusts, and the application of general tax rules leads to a heavy tax burden. It is expected that special tax documents will be issued in the future to clarify the fiscal and tax treatment and promote the healthy development of family trusts.

5. Conclusion

Globalization is a double-edged sword. On the one hand, technological innovation and major changes in social organizations and thoughts have improved efficiency and generated more wealth. On the other hand, globalization undermines social stability and exacerbates inequality.

Undoubtly, the general impact of de-globalization on global economic growth is complex. While de-globalization can lead to short-term benefits for individual countries through protectionist measures and localized production, it may also result in lower global economic growth in the long term. Reduced global trade and investment flows can lead to inefficiencies and lower productivity gains. The World Bank's analyses suggest that while de-globalization might protect certain industries, it also risks stifling innovation and economic dynamism, which are crucial for sustained global growth.

De-globalization is reshaping the global economic landscape with significant implications for *trade*, *investment*, and *technological development*. The rise in *protectionism*, the *reorientation of supply chains*, and *increased economic nationalism* are defining features of this period. Additionally, changes in FDI flows, technological decoupling, and the emergence of regional trade agreements highlight the shifting dynamics of global economic interactions. While these changes offer opportunities for localized growth, they also pose challenges to global economic integration and long-term growth. Understanding these characteristics is crucial for navigating the evolving economic environment and formulating effective policies in a de-globalized world.

With that, the asset allocation strategies of family trusts are evolving in response to the de-globalization trend. Research indicates a notable shift towards domestic assets, increased diversification within local markets, and a heightened focus on private equity and alternative investments. Geopolitical risk assessment and ESG considerations are also becoming integral to investment decisions. As family trusts navigate this complex landscape, their strategies are adapting to *balance risk*, *return*, and *long-term sustainability* in an increasingly fragmented global environment.

Looking forward to the future, with the in-depth implementation of policies and the transformation of the trust industry, there is broad room for the development of family trusts. Financial institutions should *strengthen innovation*, *improve services*, and *risk control*, while the government needs to speed up legislative and tax reforms to jointly promote the prosperity and development of family trusts.

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