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„Global commerce in the era of COVID-19”

Manuel F. Geremías
Vienna, June 19th 2020

„Global commerce in the era of COVID-19“



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Willkommen / Bienvenid@s / Welcome

Agenda



1. Introduction
2. Global commerce over the last 30 years
3. The case of Esteves Group
4. Covid-19 and the new normality
5. Discussion and conclusions

Introduction



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Un gallego en Viena

The world was flat



Introduction



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Objectives for today

Opening a space for dialogue

Having a good time



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Globalization, 1990s – 2010s

Globalization promised a level playing field in terms of commerce

- Enablers: Berlin Wall, internet, outsourcing, China WTO, off-shoring, supply-chaining, etc

Globalization assured peace

- *No two countries that are both part of a major global supply chain will ever fight a war against each other, as long as they are both part of the same global supply chain* (T. Friedman)

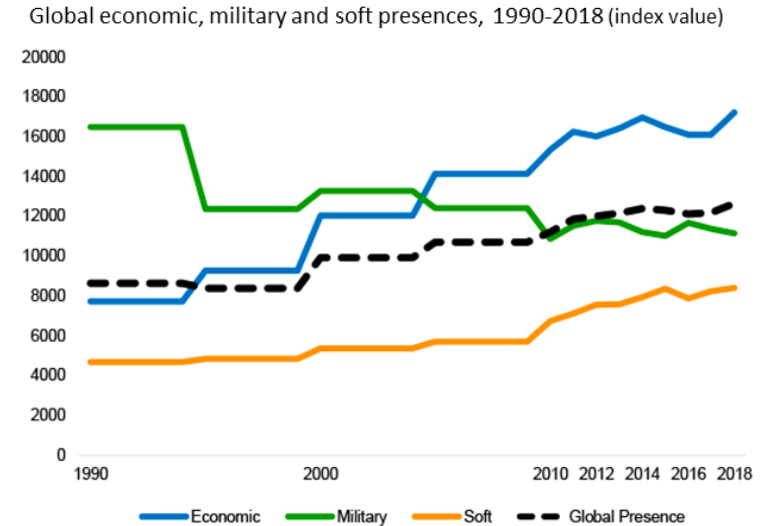
Consequences

- Rapid pace of change
- Pressure on businesses and individuals in the developed world
- Winners / losers

Growth of global trade in the 1990s and 2000s did not come back in the 2010s

- Finance was more cautious, following the financial crisis of 2007-09
- China was richer and developing its internal market
- Transport was no longer getting cheaper

... and then came President Trump



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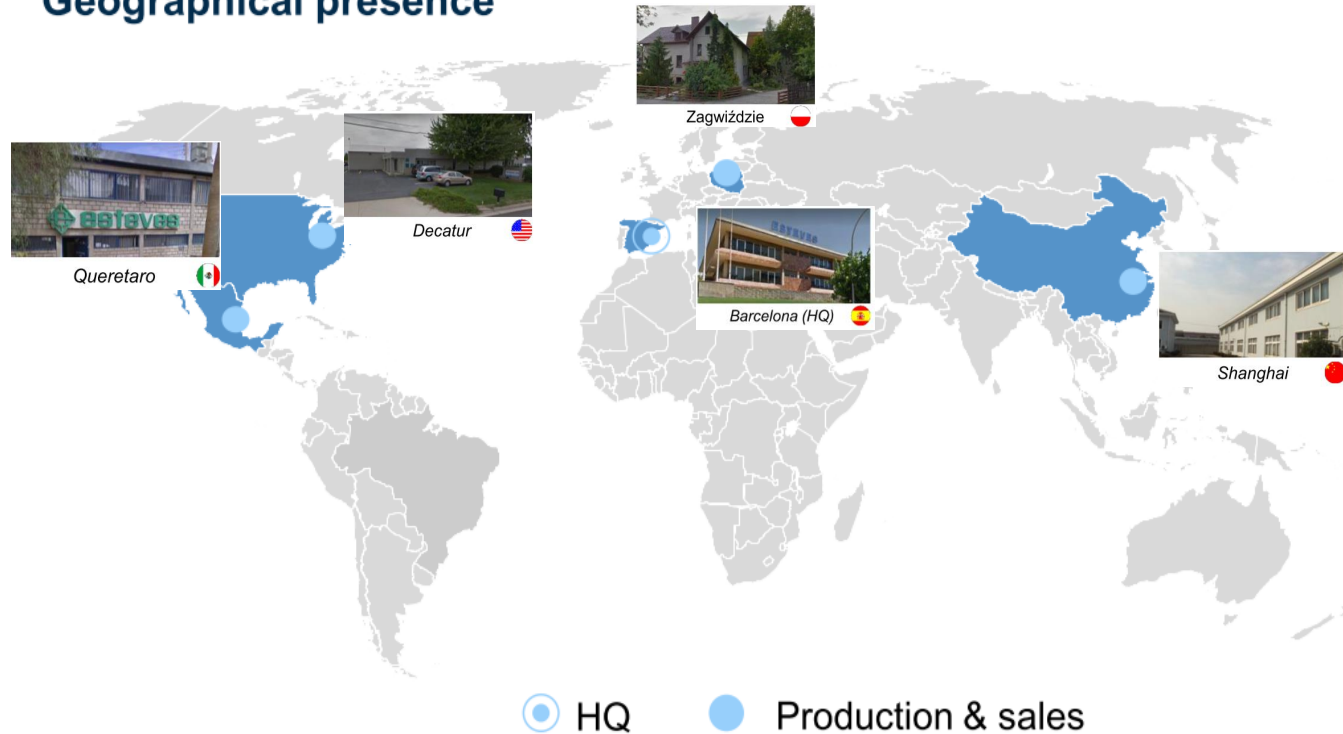
Esteves Group



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- ✓ Esteves Group is one of the worlds leading manufacturers of high precision wire drawing dies, cabling dies, and extrusion tooling for the wire and cable industry.

Geographical presence



- **Production plants:** Strategically located in Europe, North and South America, and Asia
- **Capacity:** Over 1.5 million dies per year (>4000 dies per day)
- **Employees:** More than 350
- **Customers:** Over 1000 customers in over 80 countries, from family owned businesses to large multinationals. Esteves Group also supplies all major machine manufacturers.



Products



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Wire Drawing Dies



Matched Elongation Sets



Die Refurbishing



Bunching, stranding dies



Split Dies



DC Dies



Extrusion Tools



Shape Dies



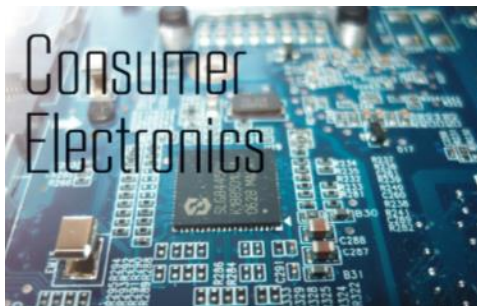
Die Shop Tooling



Industries Served



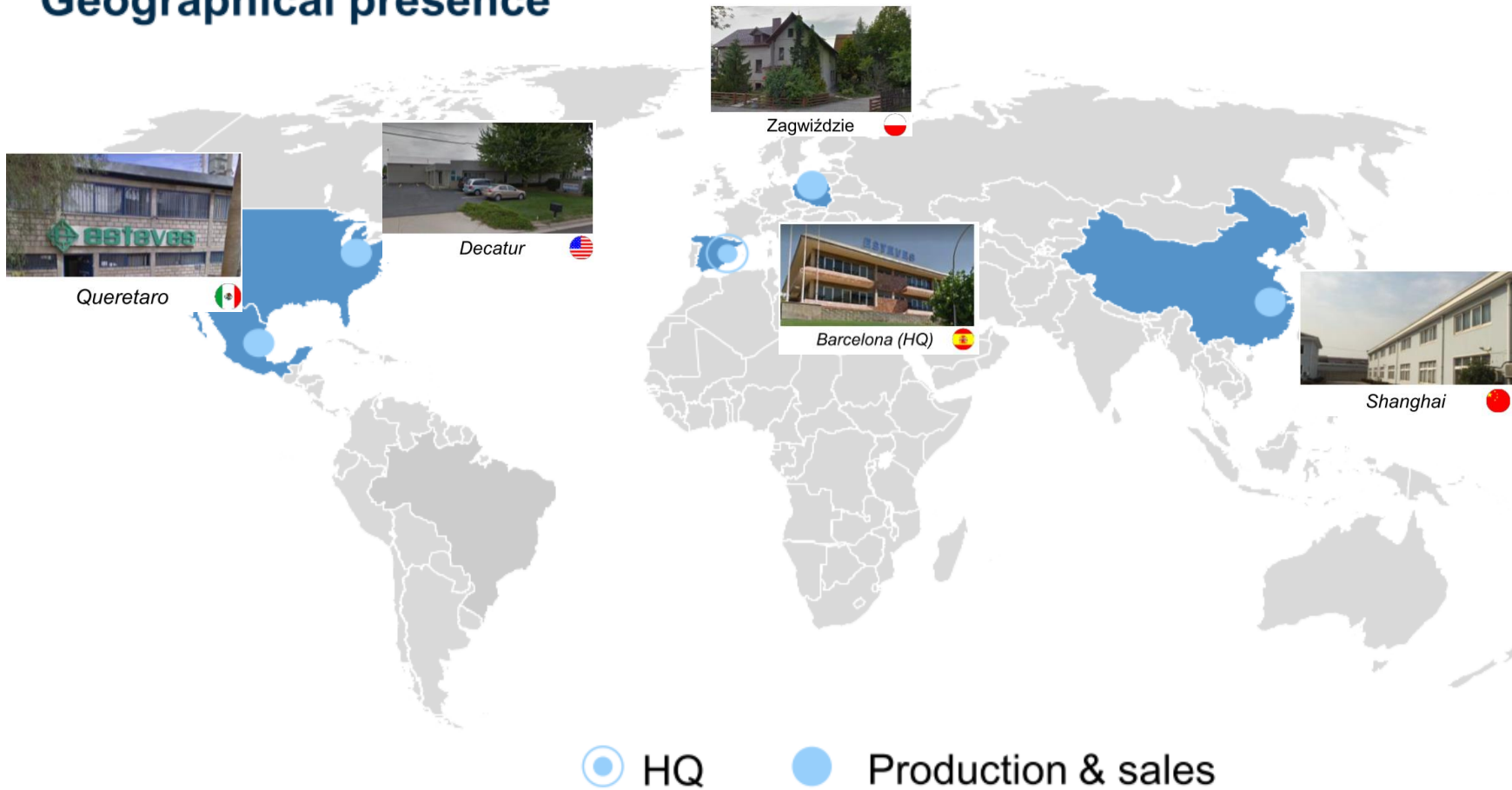
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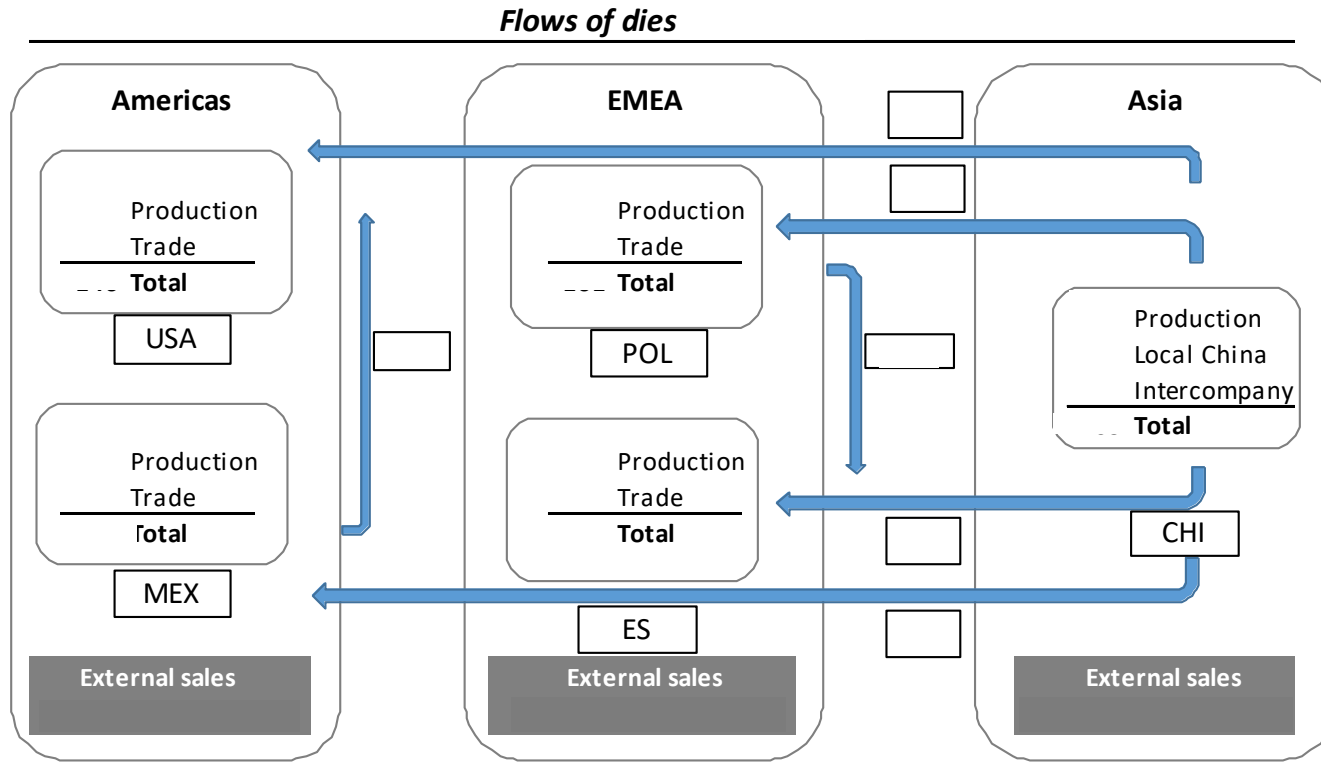
The case of Esteves Group



Geographical presence



A global supply chain, built over years...



Comments:

- Most production located in low-cost locations
- China dedicates a large part of its capacity to IC flows
- Almost 50% of dies sold to third-parties are sourced through IC transactions

... to be re-considered overnight?

K Eur

Scenario	Saving vs current	Key assumptions	Assesment
1 All Poland			
2 CHI + (DEC/MEX)			
3 POL + (DEC/MEX)			
4 XYZ (3rd Party)			
5 XYZ + (DEC/MEX) + CHI			

Comments:

- **25% duties** levied on Chinese imports in the USA, affecting our products
- These came on top of already existing 3.9%
- Searching for **alternatives** is a cumbersome exercise

Should we **completely change** our global supply chain?

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Covid-19



2020 started with a step in the right direction

- **“Phase One” deal** between America and China (15.01.2020) >> nevertheless left tariffs 6x higher than before Trump’s trade war

And then came covid-19 pandemic, slashing every hope for an easing on international trade

- **WTO: trade** could fall -30%; **transport costs** will rise the equivalent of a 3.4% global tariff (in 2018 the global average tariff was around 8%)
- **UNCTAD: covid-19** will reduce flows of **foreign direct investment** by 30-40%;
 - Fear of Chinese taking over companies in trouble >>
 - Europe (DE, IT, ES), Australia, India have issued restrictions to Foreign Investment

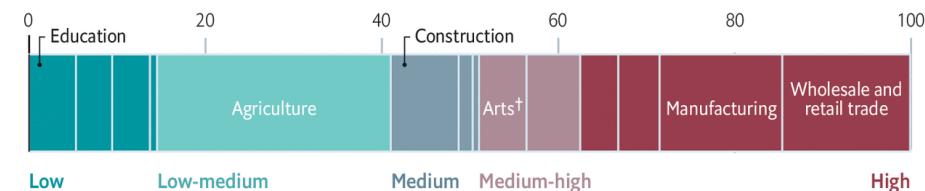
- **World Bank: remittances** will fall by 20%

Who are **worst off**?

- Labour-intensive jobs
- The ‘have-nots’

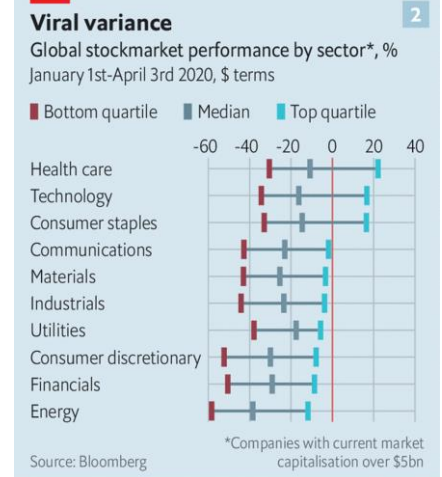
Labour isn't working

Estimated impact of covid-19 crisis on economic output, % of global employment
By sector*, April 2020



Source: ILO
The Economist

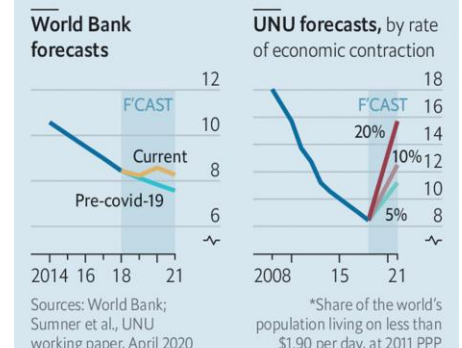
*Before outbreak of covid-19 †Arts, entertainment and recreation



Source: Bloomberg
The Economist

Progress undone

Global extreme poverty rate* forecasts, %
By differing estimates



Sources: World Bank; Summer et al., UNU working paper, April 2020

*Share of the world's population living on less than \$1.90 per day, at 2011 PPP

The Economist



The “new normality”

Most companies are now in **crisis-management mode** (focus on cash conservation and short-term survival)

What will happen **when the dust settles**?

- **Adjusting supply chains**, accelerating the trend towards regionalisation and reducing dependency on China
 - ❑ Near-shoring: it may work for some sectors (ie, machinery) and not for others (electronics)
 - ❑ “China+” strategies: shifting supply chains out of China
 - Colombia, Costa Rica, Morocco and Tunisia could gain from deals with USA / EU...
 - ... but it will take years for these new supply chains to achieve costs as low as what they would have been in China
 - In the meantime, prices will have to rise
 - ❑ Automation / Digital services: alternatives to offshoring, but few jobs back

“It was clear that this kind of globalisation was ending its cycle”
(Emmanuel Macron, Financial Times 2020)

- Time to start a new cycle, less centred on a single dominant exporter?

Responses (EU, AT)

The comeback of **production in Europe**?

- The EU must reinforce critical sectors (pharma, industrial electronics, protection equipment)...
- ... whilst ensuring support to global commerce (40M jobs in export, 200K Meur trade surplus with 3rd countries)

Glocalization / Small World Networks, connected to other larger networks

- Challenging the simplistic concept of globalization processes as linear expansions of territorial scales
- Networks are more inefficient than traditional linear structures... but they are also more adaptable and resilient

Implications

- Shareholders: shifting focus from profit to sustainability and resilience
- Management: higher degree of decentralized authority
- Employees: opportunities and threats, adaptation needed
- Government: investment in qualification and re-writing the book of rules

Margarette Schramböck

Wirtschaftsministerin
(Die Wirtschaft, 4-2020)



„... die Krise hat gezeigt, dass die **globalen Märkte** im Bereich der Schutz-ausrüstungen und Medizinprodukte **nicht Krisenresistent sind**“.

„Ziel muss sein, **Produktions- und Lieferketten in die EU zurückzuholen**, um in Krisensituationen nicht so abhängig zu sein.

Das heißt nicht, dass wir zum Gegner der Globalisierung werden.

Österreich verdient rund sechs von zehn Euro durch Export“.

Ein **Zurückholen von Wertschöpfungsketten**

„Dazu braucht es

... Ein wettbewerbsfähiger

Wirtschaftsstandort, das Wettbewerbs- und Kartellrecht überdenken oder das europäische Beihilfenrecht neu diskutieren“

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Open discussion



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Vielen Dank!

Muchas gracias

Thank you very much