Conference on “Supply Chains in a Changing Global Landscape”


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Road Map

- Review recent trends in the global economy
  - Have we entered a phase of de-globalization?
  - Are global value chains retrenching?

- Study trade and GVC dynamics during the Covid-19 health crisis

- Speculate on the future of globalization and of GVCs given recent geopolitical tensions

- I will structure my presentation around 10 points
  - For more details see my paper “De-Globalisation? GVCs in the Post-COVID-19 Age”
De-Globalization? The Facts
Point #1: Slowbalization, not De-Globalization

Source: World Bank’s World Development Indicators (link)
Slowbalization also for Global Value Chains

Chart 2. GVC Trade as Percentage of World Trade

Source: Borin and Mancini (2019), as reported in World Development Report (2020)
Point #2: Slowbalization Was Inevitable


Source: World Bank’s World Development Indicators (link)
The Period of Hyperglobalization
Point #3: Three Key Drivers of Hyperglobalization

1. **Technology**: Information and Communication Technology Revolution

2. **Policy**: Acceleration in multilateral and regional trade liberalization

3. **Politics**: Political developments that brought about a remarkable increase in capitalist “labor” force

   - **Implication**: Disintegration of production across borders
De-Globalization and Technological Factors
Point #4: Technology Will Continue to Foster Trade

- Past technical change (the ICT revolution included) certainly did

- Significant new technological developments:
  - Automation / Industrial Robots
  - 3D Printing
  - Digital technologies
  - Open distributed ledgers (Blockchain)

- Although some appear to substitute for labor, they tend to generate increased demand for traded goods (e.g., automation)
The Case of Automation

- At first glance, it seems it is a substitute for globalization
- But robots do not produce goods out of thin air
- Automation reduces marginal costs, increases optimal scale and the demand for inputs
- Existing empirical studies (Artuc et al., 2018; Stapleton and Webb, 2020; Cilekoglu et a., 2021; Wang, 2022) suggest a positive effect of automation on intermediate input trade flows

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Point #5: GVCs are Sticky Due to Sunk Costs

- Fixed costs of offshoring generate scale economies (firms rationalize global strategies)

- Fixed costs are also often sunk in nature

- This has important implications:
  - *Ex-ante* decision to offshore ≠ *ex-post* decision to reshore
  - Only persistent shocks generate large relocation

- Ample evidence on the inaction of the extensive margin of trade
De-Globalization and Policy Factors
Point #6: There Are Signs of Growing Protectionism

- Three particularly worrisome developments:
  1. Multilateral liberalization agenda under the umbrella of the WTO is at an impasse
  2. Process of regional liberalization has also largely stalled, and shows signs of being in retreat (Brexit, USMCA)
  3. Recent U.S.-China trade war
Point #7: Underlying Forces Will Not Go Away

- Backlash against globalization largely caused by rise in inequality

- We are likely to continue to see trade-induced inequality
  - Automation, digital technologies might give globalization a second wind, but they will also increase inequality

- Will redistribution systems to a better job of compensating the losers from globalization? Unlikely
Trade and Inequality

Chart 15. Inequality and Redistribution in the United States

Panel A. U.S. Trade Openness and Gini Coefficient

- Trade integration and income inequality have come hand in hand
- Compelling evidence of negative labor market outcomes being specifically caused by trade with China

Source: Antràs, de Gortari and Itskhoki (2017).
Trade and Compensation

Chart 15. Inequality and Redistribution in the United States

- Trade Adjustment Assistance largely inexistent
- U.S. workers 30 times more likely to be compensated via SSDI (Autor et al., 2013)
- How about via income tax/transfer system?
- Profit-shifting; tax evasion

Source: Antràs, de Gortari and Itskhoki (2017).
The Covid-19 Crisis and the Future of GVCs
Point #8: Covid-19 Halted Trade but Fast Recovery

Chart 16. The Impact of COVID-19 On World Trade

Panel A. World Trade and World Industrial Production
(Index July 2019 = 100)

Panel B. Estimated Metric Tons of World Exports
(30-day moving average in ratio to 2017-19 average)

Source: CPB World Trade Monitor (link)

Source: Cerdeiro, Komaromi, Liu and Saeed (2020); AIS data collected by MarineTraffic (link)
Point #9: Covid-19 not *per se* De-Globalizing

- Decline in face-to-face interactions is likely to persist (though obviously in a less dramatic manner)
- But technical change might make virtual interactions a better substitute for face-to-face interactions
- All in all, I do not think that Covid-19, *per se*, will be a de-globalizing shock
  - It is a huge but *transitory* shock (remember the relevance of sunk costs)
De-Globalization and Geopolitical Tensions
Point #10: Geopolitical Situation Very Worrisome

- Geopolitical landscape post Covid-19 is more alarming

- It was delicate to begin with, but Covid-19 has:
  - Increased diplomatic tensions (“China/Wuhan Virus”, EU tensions
  - Exacerbated previous inequality trends (which is likely to foster more populism)

- Having said this, I am perhaps less pessimistic than others
  - my view is that Russia has largely shot itself in the foot
  - China’s pragmatic reaction to the recent geopolitical conflicts indicates a commitment to “make globalization work”
Russia in Global Value Chains

What did Russia export in 2019?

- Transport
  - Petroleum oils, crude 4.35%
  - Petroleum oils, refined 12.74%
  - Petroleum gases 5.37%
  - Coal 3.82%
  - Gold 6.75%
- ICT
  - Unspecified 3.90%
  - Travel and tourism 2.31%
  - ICT 2.19%
- Other
  - Commodities not specified according to kind
  - Wheat and meslin
  - Wood and paper
  - Metals
  - Vehicles
  - Other goods

Shown: $474B, Total: $474B
All countries participate, but in different ways.
Conclusions

- Not obvious that world economy is de-globalizing, though there are clear signs of “slowbalization”

- Hard to conclude that technological developments or Covid-19 are likely to fuel an era of de-globalization

- Main challenge for the future of globalization is likely to be institutional and geopolitical in nature