



Conference on “Supply Chains in a Changing Global Landscape”

“De-Globalization? Global Value Chains in the
Post-COVID-19 Age”

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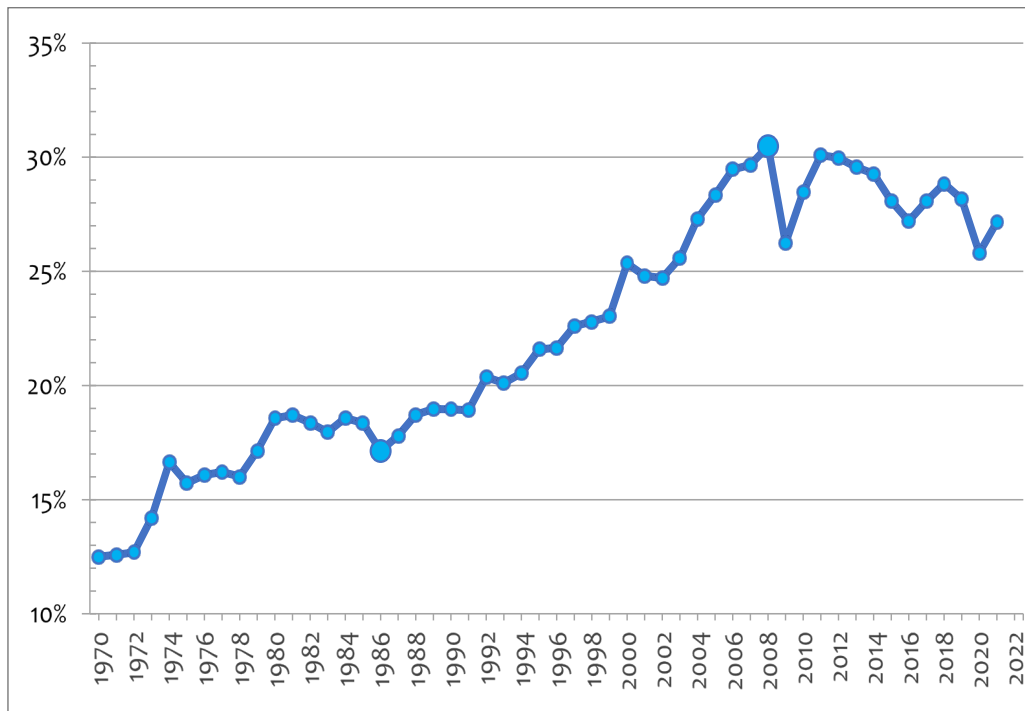
Road Map

- 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

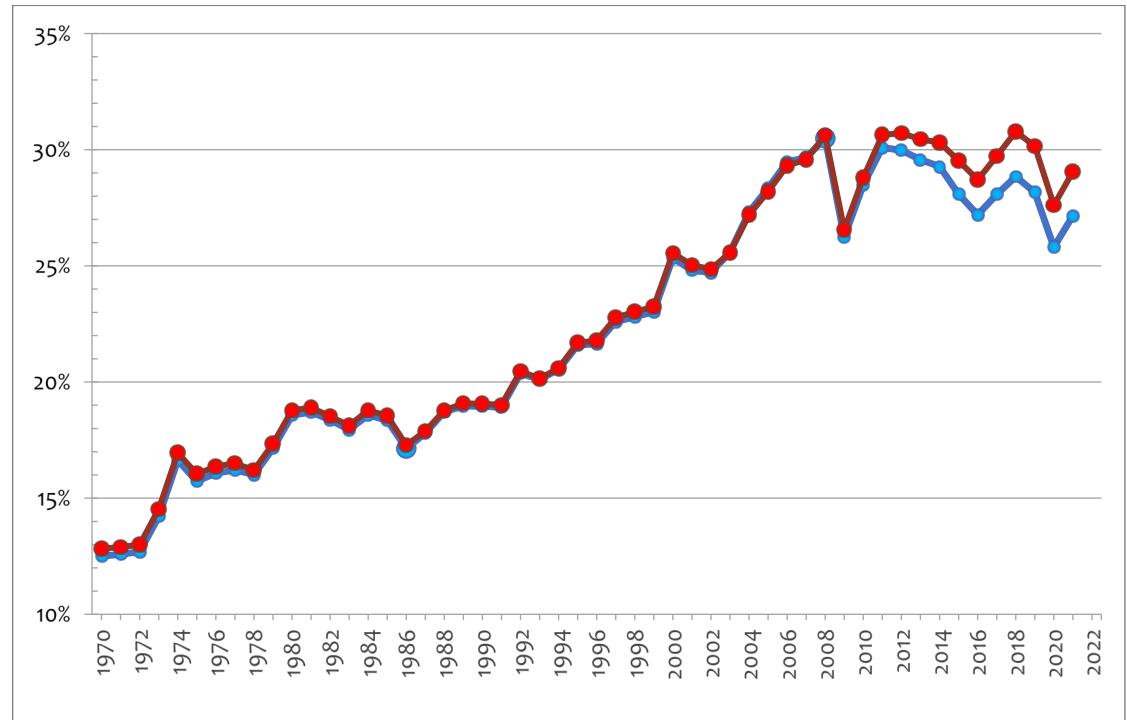
Point #1: Slowbalization, not De-Globalization

Chart 1. World Trade over World GDP (1970-2021)



Source: World Bank's World Development Indicators ([link](#))

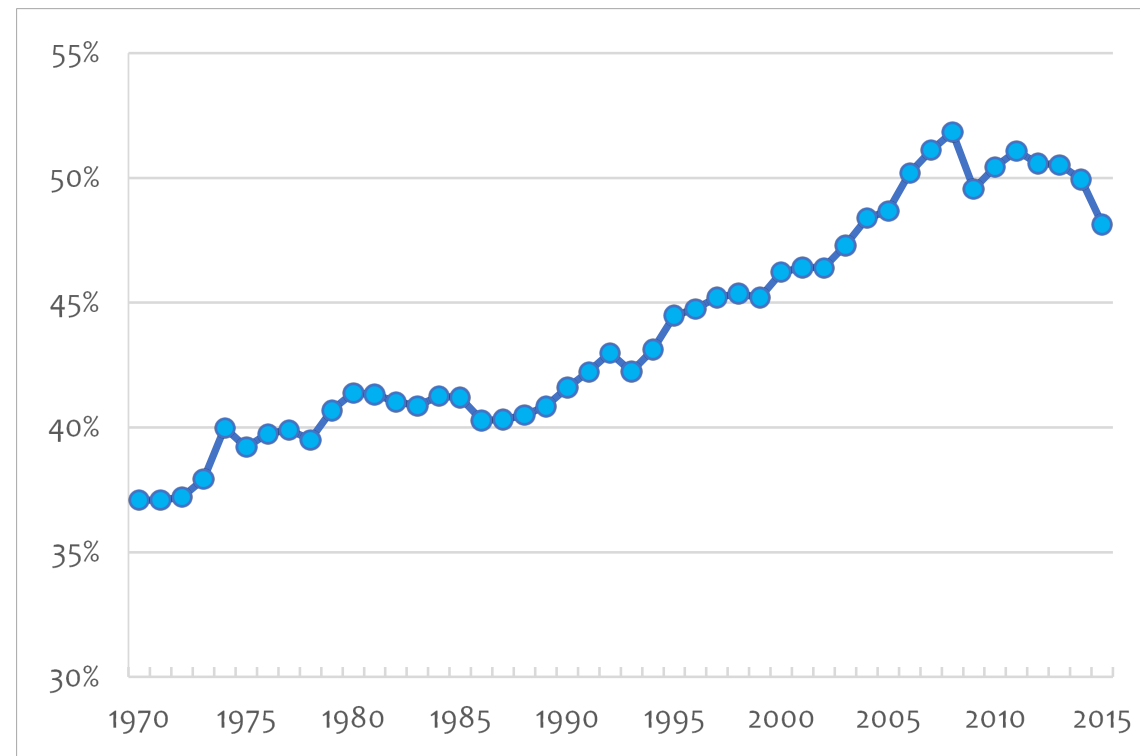
Chart 1'. World Trade over World GDP (1970-2021) excluding China



Source: World Bank's World Development Indicators ([link](#))

Slowbalization also for Global Value Chains

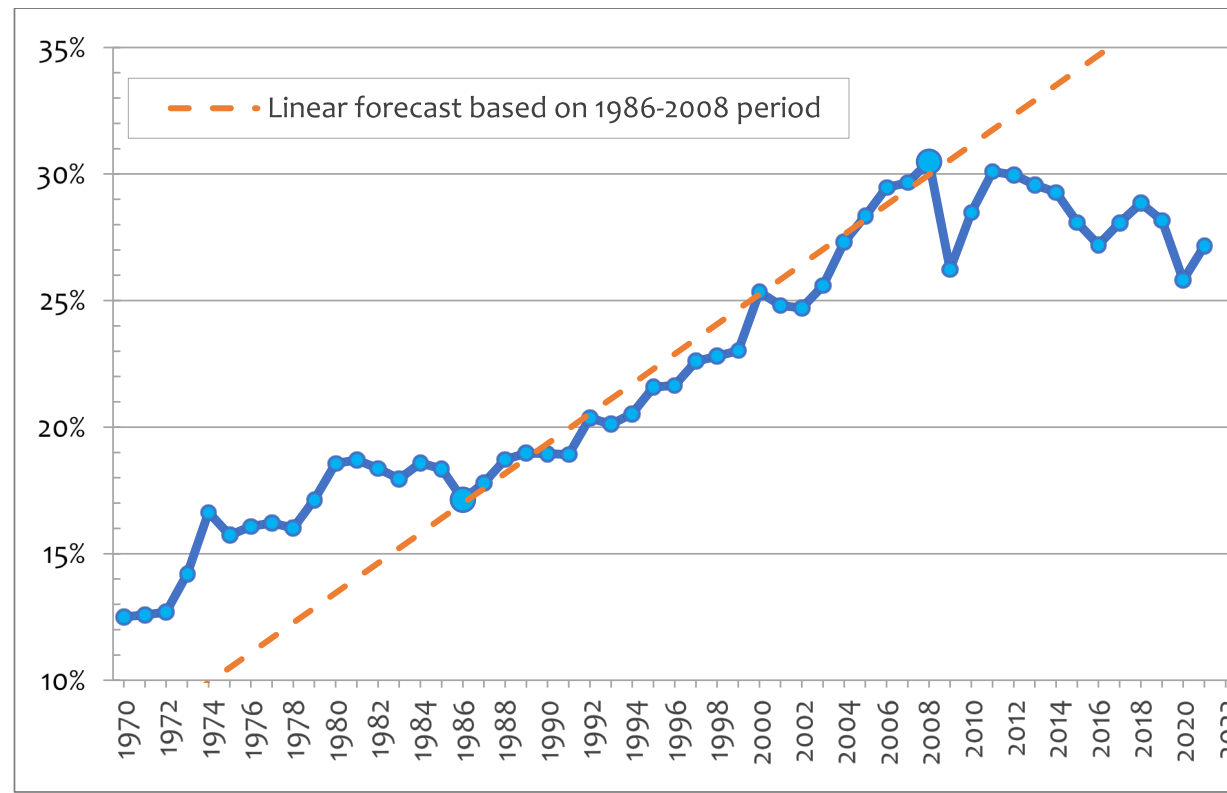
Chart 2. GVC Trade as Percentage of World Trade



Source: Borin and Mancini (2019), as reported in World Development Report (2020)

Point #2: Slowbalization Was Inevitable

Chart 1. World Trade over World GDP (1970-2021)



Source: World Bank's World Development Indicators ([link](#))

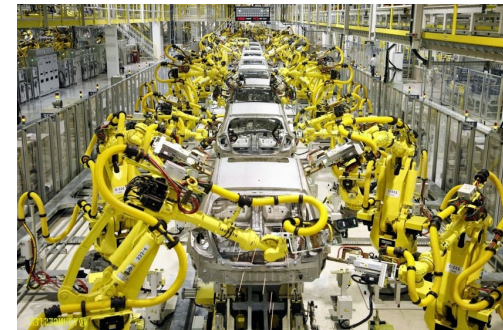
The Period of Hyperglobalization



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 al., 2021; Wang, 2022) suggest a **positive** effect of automation on intermediate input trade flows

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 \neq *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

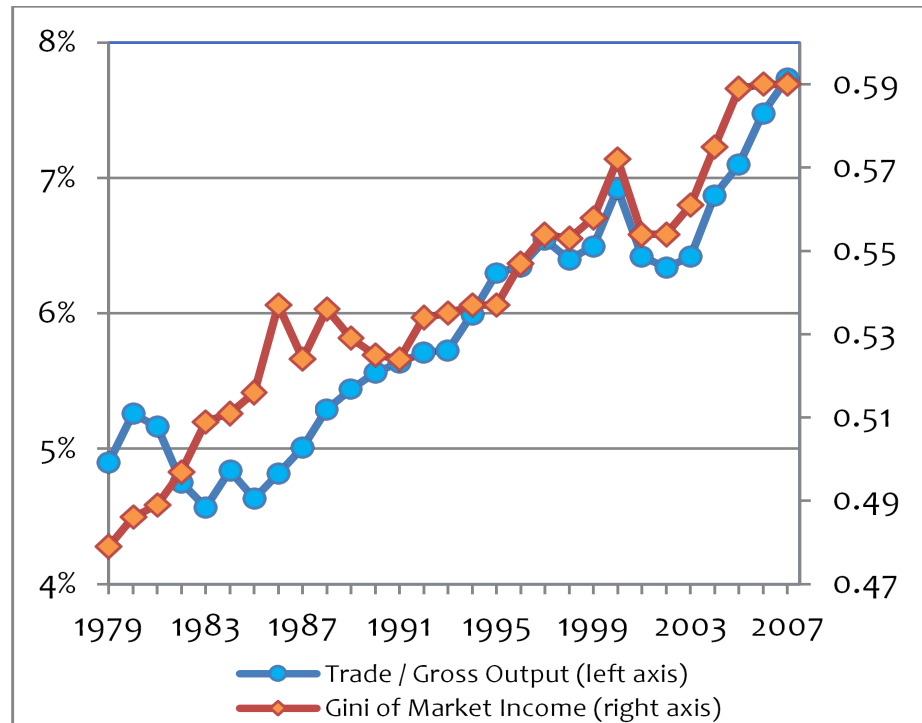
Point #7: Underlying Forces Will Not Go Away

- 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 do 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



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

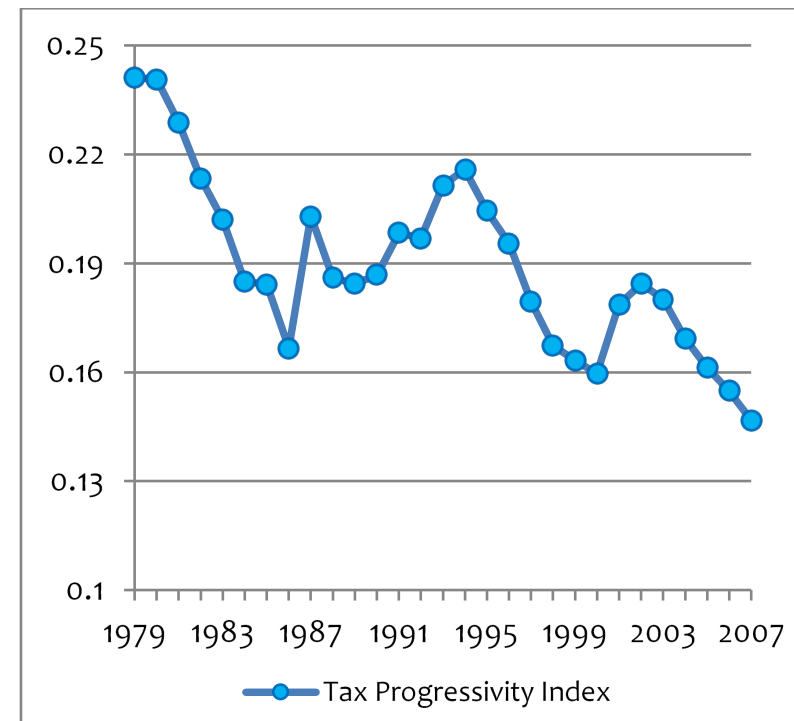
- Trade integration and income inequality have come hand in hand
- Compelling evidence of negative labor market outcomes being specifically caused by trade with China

Trade and Compensation

Chart 15. Inequality and Redistribution in the United States

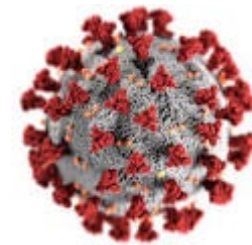
- ❑ Trade Adjustment Assistance largely inexistent
- ❑ U.S. workers 30 times more likely to be compensated via SSDI (Autor et al., 2013)
- ❑ How about via income tax/transfer system?
- ❑ Profit-shifting; tax evasion

Panel B. Index of U.S Tax Progressivity



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

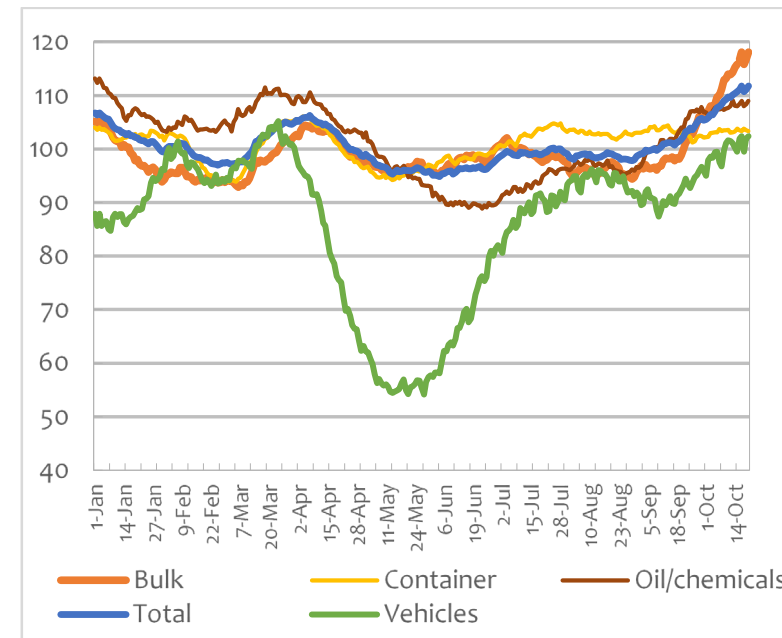
Chart 16. The Impact of COVID-19 On World Trade

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



Source: CPB World Trade Monitor ([link](#))

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



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)

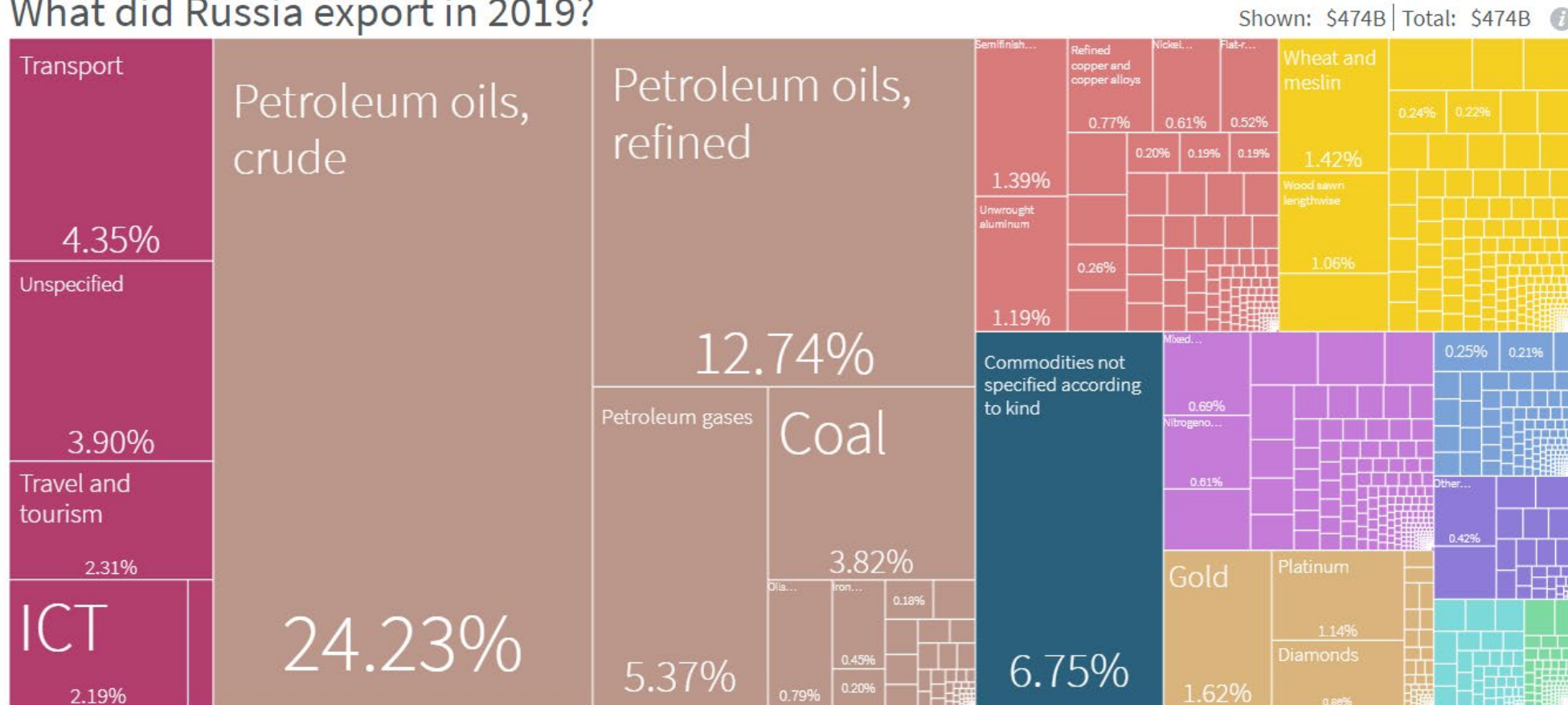
De-Globalization and Geopolitical Tensions

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?



All countries participate, but in different ways

GVC linkages, 2015



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