# *Is the Global Economy Deglobalizazing?*
## *And if so, why? And what is next?*

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# Road Map

## A. Is the World Economy De-globalizing?

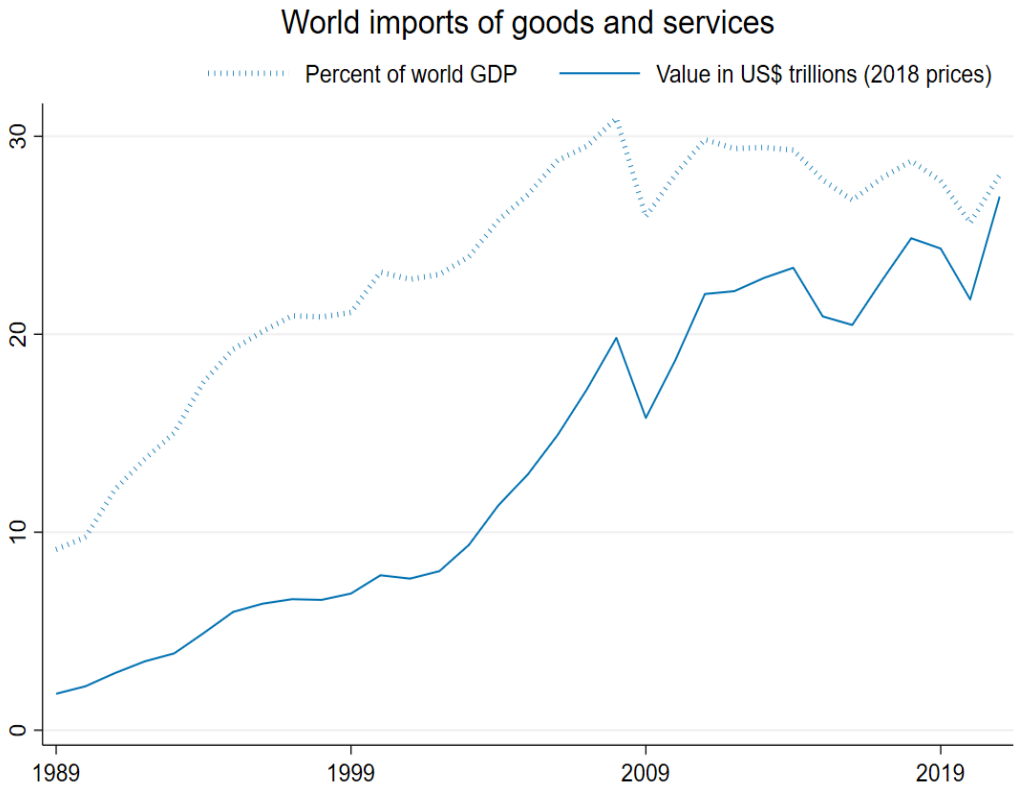
- Data: Not yet. But Slowdown
- Policy and Public Sentiment: YES.

## B. Causes of the Retreat

- Perception that competition/trade has not been fair
- Increase in within-countries inequality
- COVID-19 → Resilience of Global Supply Chains
- Invasion of Ukraine → Geopolitics

## C. **Consequences** (speculative at this point)

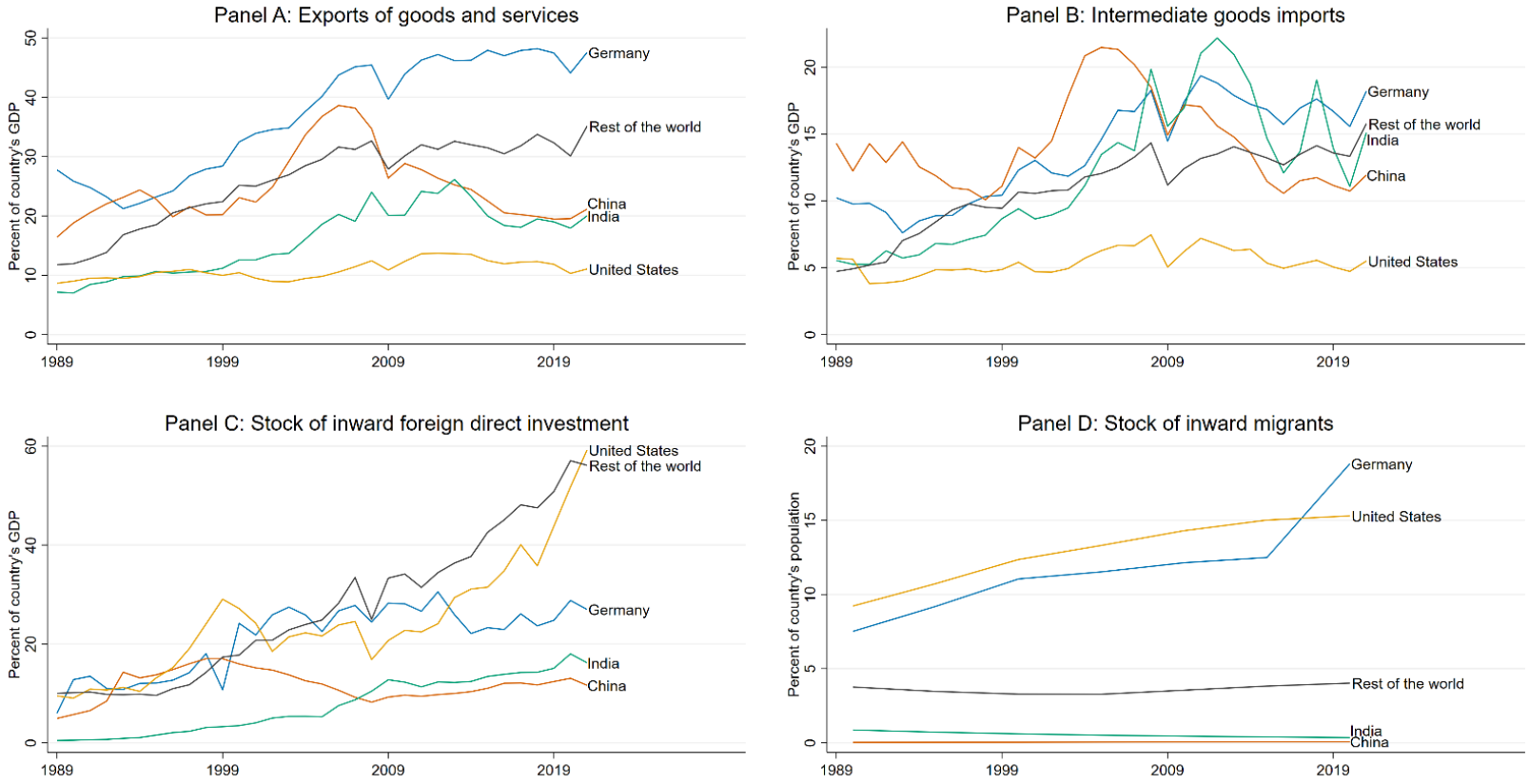
# Trade is growing, but has declined as a percent of world GDP since the global financial crisis




*Sources:* COMTRADE, WTO, World Bank

*Notes:* Nominal value of goods imports is from COMTRADE, and nominal value of services trade is from the WTO, both reported in US dollars. The sum of nominal trade values is divided by world GDP in US dollars at market exchange rates (NY.GDP.MKTP.CD GDP in the World Bank Development Indicators). Nominal trade values are converted to 2018 prices using the GDP deflator (NY.GDP.DEFL.ZS) for the United States.

- Global  Trade Trend is Driven by a Few Large Economies(China, India)
- Investment and Migration Data do not Suggest Slowdown




*Sources:* COMTRADE, United Nations Conference on Trade and Development (UNCTAD), United Nations Global Migration Database, World Bank

# Policy and Public Sentiment: Big Changes

Reversal of Decades-Old Liberalization Agenda and multilateralism in the US and UK

- Brexit Vote: 2016
- US Tariffs and US-China Tariff War: 2018-present
- Appellate Body Crisis and Paralysis of WTO since end of 2019 (but problems evident earlier)
- Industrial Policy in the US (CHIPS Act; IRA)
- Export Restrictions targeting China

BUT: Still regional and multilateral agreements in the rest of the world: ASEAN; RCEP; CPTPP; AfCFTA)

# Public Sentiment

- In 2018-19, public still viewed trade as beneficial to the economy, despite concerns about employment and wages
  PEW Global Attitudes Surveys, see Dorn and Levell Chapter in Deaton Review: https://ifs.org.uk/inequality/trade-and-inequality-in-europe-and-the-us/

- In 2022: Concerns about resilience; geopolitics; demands for re- and friendshoring. National security first-order concern

**New Era!**

# B. Causes of the Retreat

THREE Phases

| | Years | Drivers/Concerns about | Consequences |
|---|---|---|---|
| Phase 1 | 2016-2020 | Unfair competition b/w countries<br>Labor market disruption<br>Regional inequality | Brexit<br>Trump Tariffs<br>Trade: robust |
| | | | |
| Phase 2 | 2020-2022 | Supply chain resilience<br>Catalyst: COVID-19 | None<br>Trade: robust |
| | | | |
| Phase 3 | 2022-present | National security<br>Resilience to geopolitical risks<br>Catalyst: Invasion of Ukraine | Decoupling from Russia (in Europe and US) and China (in the US)<br>Trade: ??? |

# Phase 1

## Drivers

See P. Goldberg: "*The Unequal Effects of Globalization*", MIT Press, August 2023.

- Perception that competition b/w countries has not been fair
- Decline in *Global Inequality* has come at the expense of increase in *Within-Country Inequality* (Branco Milanovic 2016)

  → Effects on *Spatial Inequality* particularly pronounced

# Phase 1

- **Consequences**
  - Brexit
  - US-China Tariffs

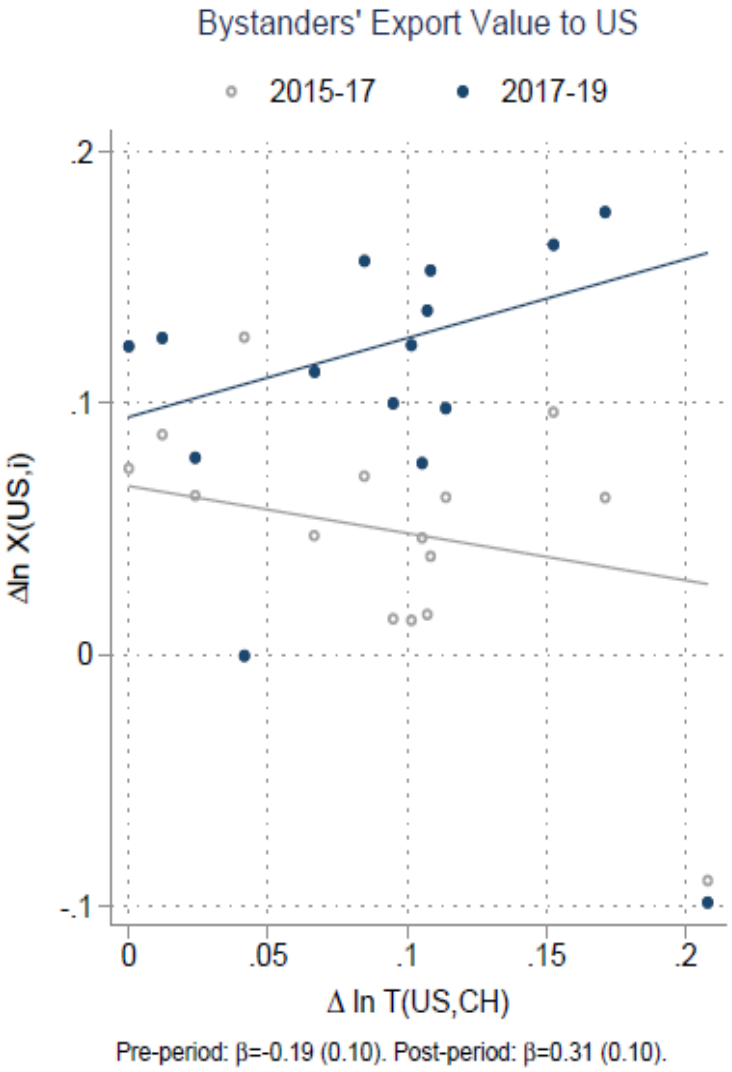
# Consequences

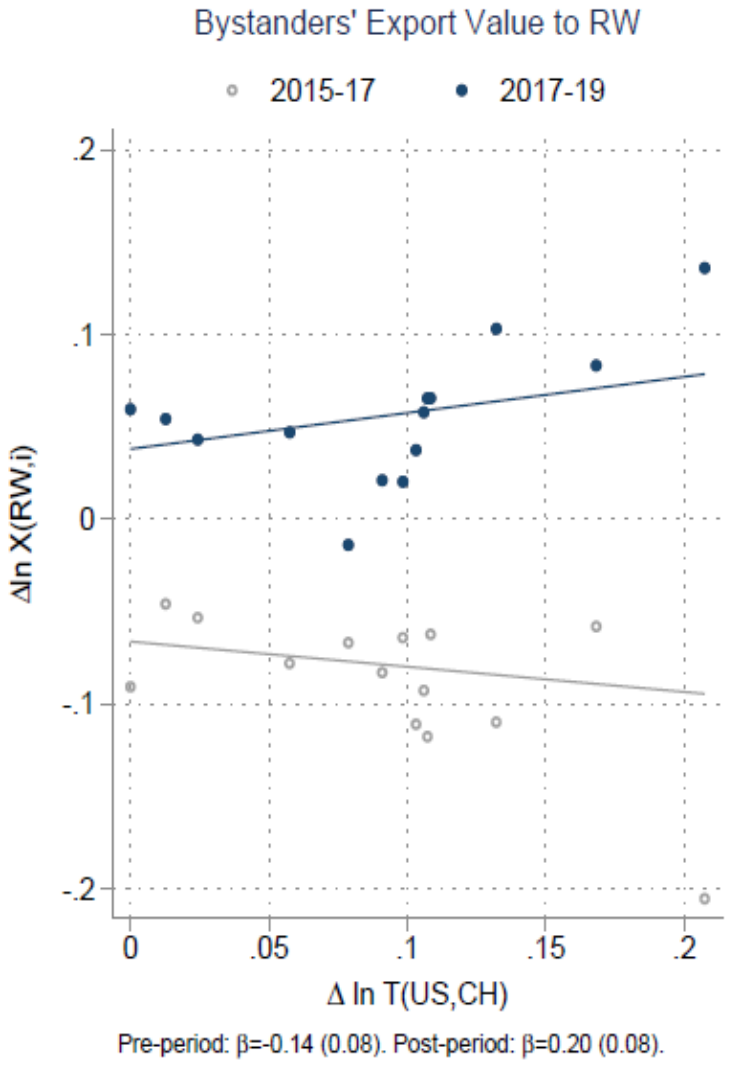
- Strong rhetoric and heightened uncertainty
- BUT:  little effect on actual trade. Brexit more severe consequences than US-China tariffs.
- In fact, the US-China trade war *increased* global trade in the targeted products
- Perhaps most important effect: Stepping Stone

  **Laid the groundwork for subsequent shift in policy**.

# Effects of US-China Trade War on Global Trade Flows

(Fajgelbaum et al 2023)



# Phase 2

## Drivers

Novel argument: Fragility of Global Supply Chains

→ A chain is as strong as the weakest link

→ Made before (Japan Earthquake 2011)

→ But gained new significance: Demand for Resilience

**Evidence at odds with this argument**

# But what is “Resilience”?

Markus Brunnermeier (2021), *The Resilient Society:*

*“Bend but not Break”*

(Reed vs. Oak)

- But how do we operationalize this notion?
- And how do we benchmark it? What is the desired level of resilience?

→ **Conceptual Issues**

# Resilience can only be evaluated with reference to specific shocks

**Relevant considerations**

- **Nature and Magnitude of Shock**
  i. Supply, Demand, or Both
  ii. Sector- , Country-specific, or Both
  iii. Idiosyncratic or Systemic

- **Time Horizon (short-, medium- or long-run)**
  i. Dependent on sector (food, medicines: time is of the essence)
  ii. Dependent on (possibly non-homothetic) preferences (consumers in rich countries without well-developed public transportation may consider a car a necessity)

- **Level of Aggregation**
  i. Economy-Level
  ii. Industry-Level
  iii. Firm-Level
  iv. Household-Level

Note that COVID-19 was:

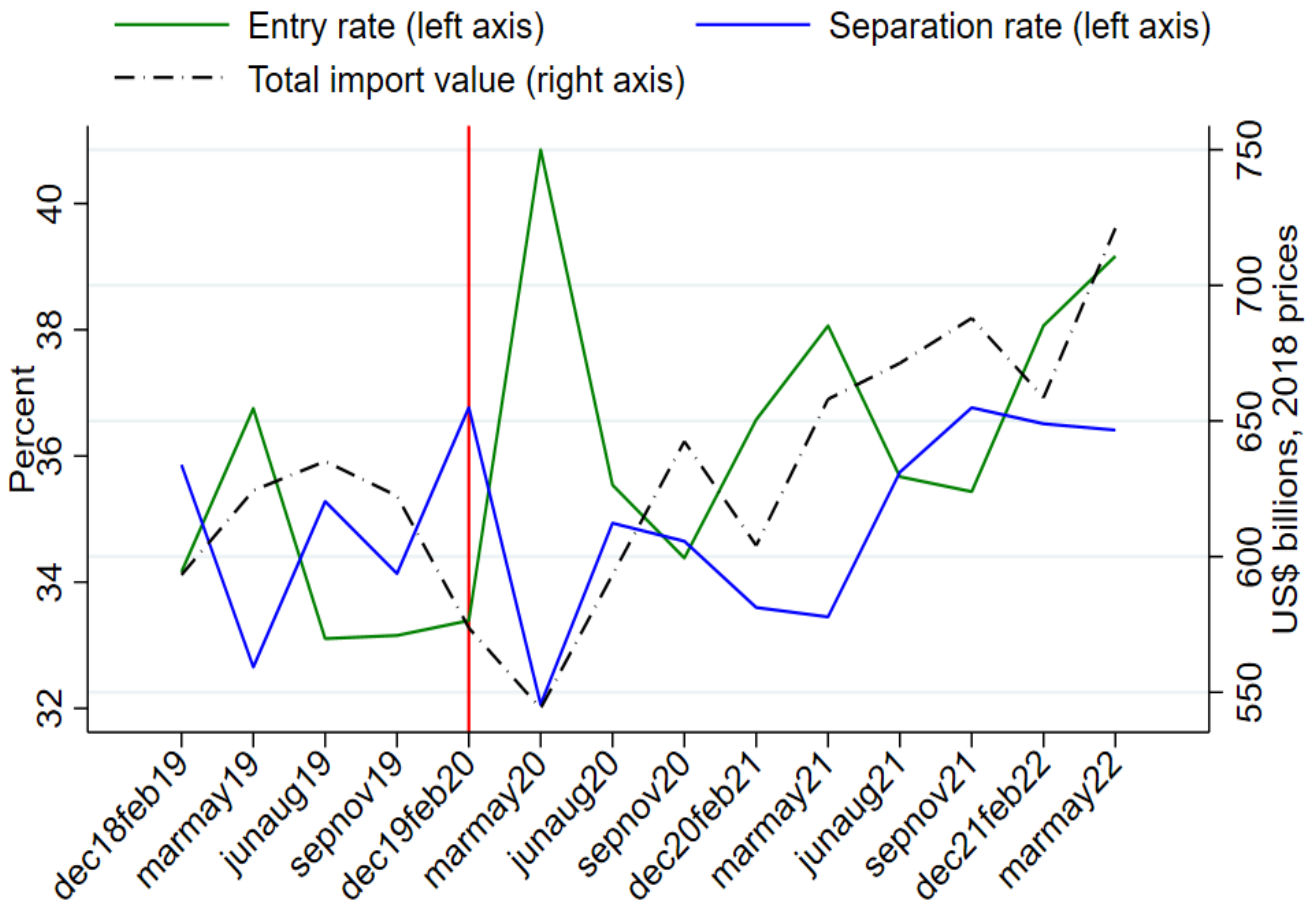
- Both supply and demand shock
- Global (though not synchronized across countries)
- Arguably, the largest global shock post World War II.

***Judged by the "bend but not break" criterion, the world economy proved incredibly resilient during 2020-22 and international trade contributed to this resilience!***
(IN ADDITION to fiscal and monetary policy)

# Resilience and Trade during COVID-19

- Trade volumes declined during 2020, but rebounded in 2021
- Firm-to-firm import relationships were not disrupted though import volumes declined (Goldberg and Reed 2023)
  - Imports were bent but not broken
- Because COVID waves were not synchronized across countries, imports of PPE eased domestic bottlenecks.

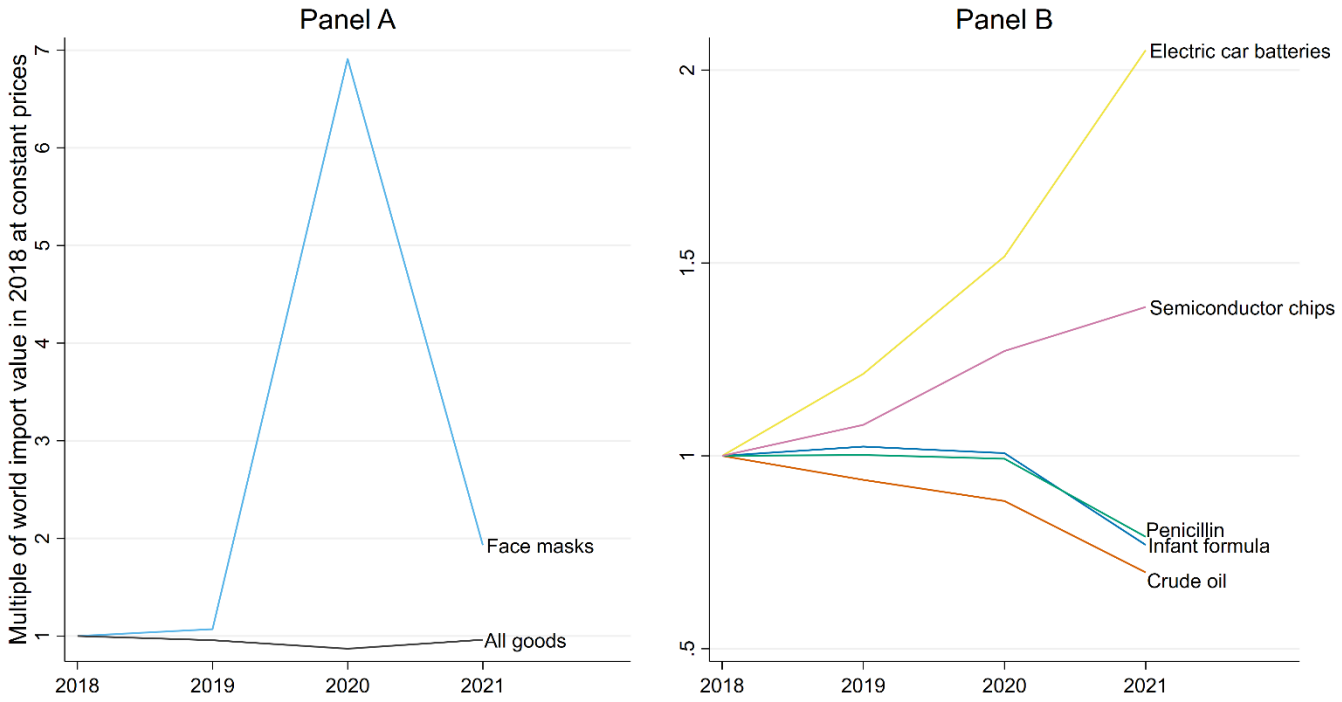
# U.S. Firms' Relationships With Foreign Suppliers During COVID




*Source: Panjiva, US Census, BLS*

*Notes: The vertical red line indicates the quarter before the Covid-19 pandemic begins. The entry rate measures the percent of suppliers that are new in the current period, and the separation rate measures the percent of suppliers from the last period that no longer supply in the current period. Total import value is the value of goods imports (not seasonally adjusted) reported by the Census deflated by the import price index for all commodities.*

# Imports of some critical goods during COVID-19




*Source:* COMTRADE, U.S. Bureau of Labor Statistics (BLS)

# Additional Evidence on Resilience and Trade

- Khanna, Morales and Pandalai-Nayar (2022): Firm-to-firm relationships were less disrupted in India when products were complex
- Stumpner (2022): Regional lockdowns in China (with the exception of the one in Shanghai in April 2022) had no effect on international trade
- Bonadio et al (2021):
  - For 64 countries, GDP drops by 29.6% on average during the pandemic
  - But only a small fraction (less than a quarter) can be attributed to foreign shocks
  - Contraction would have been much worse without international trade (reason: domestic inputs were also affected!)
- World GDP contracted by 3.2% in 2020 , but increased by 5.9% in 2021
  - GDP bent, but not broken

Evidence consistent with a point made by Caselli, Koren, Lisicky, and Tenreyro (*QJE* 2020):

- Does trade made an economy more or less resilient to shocks (in the sense of being exposed to volatility)?
- Answer depends on whether the shock is country- or sector-specific
- In recent decades, country-specific shocks dominate the data
- As a result, trade has made economies MORE resilient

→ **Resilience cannot be judged without reference to the type of shock!**

# Consequences

- Not consequential. Trade rebounded in 2021!
- If it had not been for the invasion of Ukraine, we may have gone back to normal
- BUT: A Further Stepping Stone

**Attitudes towards trade are shifting**.

**International Specialization can be a liability.**

# Phase 3

**Drivers**: ???

But: Catalyst=Invasion of Ukraine

- Exposed fragility of trade to geopolitical risk
- Risks of excessive international specialization, i.e., concentration in the imports of critical products (European energy imports from Russia)
- *By analogy*: The US may be equally vulnerable to risks associated with China.
- National Security: Primary Concern!
  - Focus on Dual Goods: Goods that have both military and civilian use

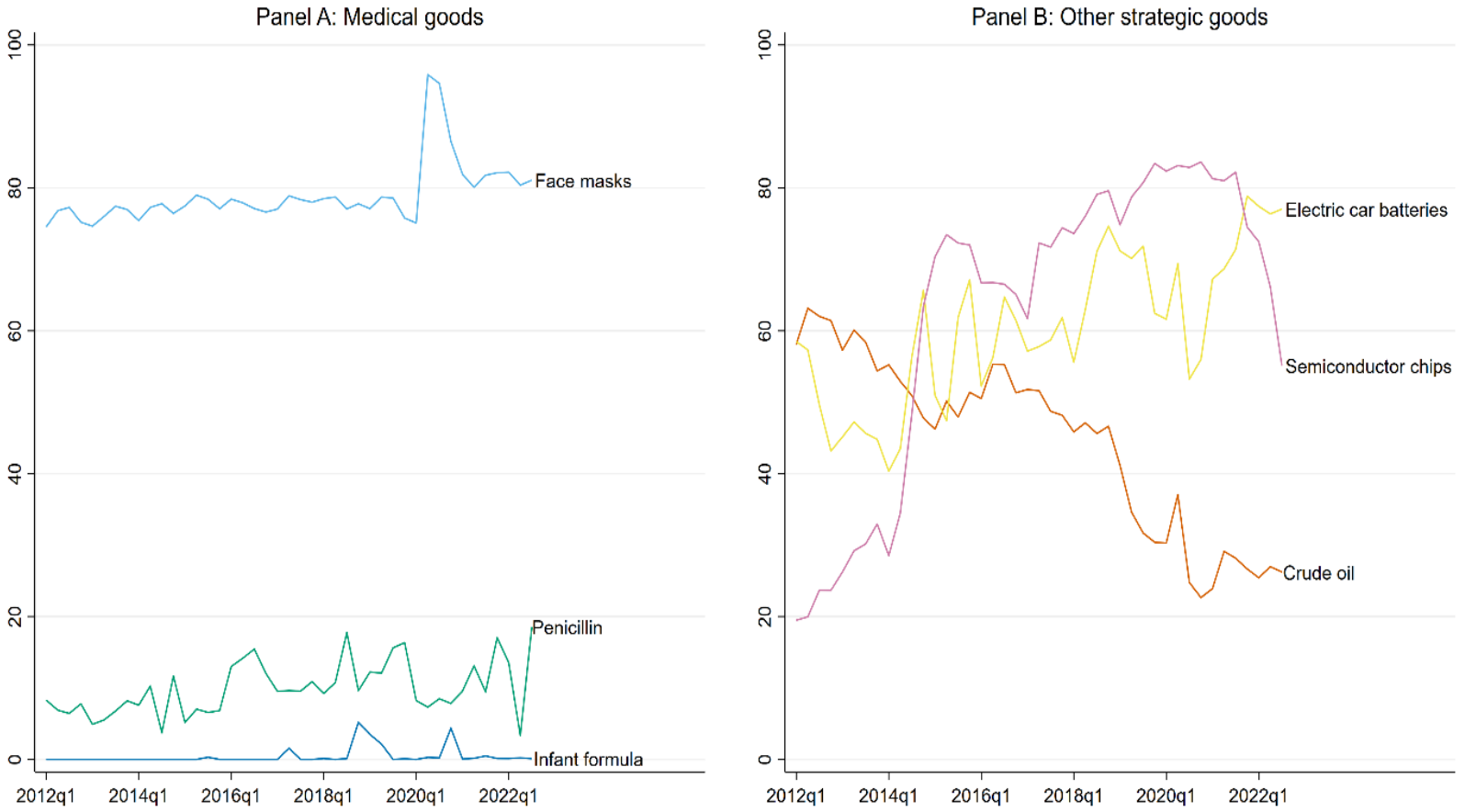
# Question: How Concentrated Are Markets for Imports?
# Answer: Markets For Critical Goods Are Very Concentrated

**Table A1: Top Five US Import Sources for Strategic Goods in 2022**

| *Partner* | *Percent of Imports* | *Value of Imports (US$ millions)* | *Partner* | *Percent of Imports* | *Value of Imports (US$ millions)* | *Partner* | *Percent of Imports* | *Value of Imports (US$ millions)* |
|---|---|---|---|---|---|---|---|---|
| Infant formula (630790) | | | Penicillin, put up in measured doses (300410) | | | Electric car batteries (850760) | | |
| IRL | 45.2 | 101.2 | IND | 25.3 | 89.2 | CHN | 65.2 | 6,537.7 |
| MEX | 30.3 | 67.9 | SWE | 18.2 | 64.1 | ROK | 9.3 | 931.9 |
| AUS | 7.2 | 16.2 | ITA | 17.2 | 60.8 | JPN | 7.6 | 762.5 |
| GBR | 6.4 | 14.3 | AUT | 12.6 | 44.4 | HUN | 3.3 | 328.4 |
| NZL | 4.3 | 9.6 | CHN | 5.4 | 19.2 | POL | 3.3 | 326.1 |
| Crude oil (270900) | | | Face masks (HS 190110) | | | Semiconductor chips (854231) | | |
| CAN | 58.1 | 92,565.7 | CHN | 72.6 | 3,541.6 | MYS | 46.3 | 8,682.2 |
| MEX | 10.5 | 16,754.3 | MEX | 9.5 | 465.1 | TWN | 10.3 | 1,930.6 |
| SAU | 7.9 | 12,614.3 | VNM | 3.8 | 186.1 | VNM | 9.4 | 1,772.3 |
| COL | 4.0 | 6,443.9 | IND | 2.9 | 140.5 | IRL | 7.8 | 1,464.8 |
| IRQ | 3.7 | 5,912.8 | DOM | 1.3 | 61.1 | CHN | 6.5 | 1,212.2 |

Source: US Census Bureau (2022).

# Percent of US Imports from 'non-friendly' countries




Source: YouGov (2017). US Census Bureau (2022).

Notes: Countries are classified as unfriendly if less than 50 percent of Americans believe country is a friend or ally. Imports are identified with six-digit Harmonized System (HS) codes: face masks (630790), penicillin (300410), infant formula (190110), crude oil (270900), electric car batteries (850760), and semiconductor chips (854231).

# Valid Arguments for Diversification!

**BUT:**

- Imports from China (80% import share in masks) were helpful during COVID-19
- Decoupling from China may imply resilience to geopolitical risk, but not resilience to a health shock
- Main import sources are often “friendly” countries (e.g., Canada and Mexico for Crude Oil; Ireland and Mexico for Infant Formula)
- Problem with “Dual Goods”: Every good can be dual (Clothes for soldiers? Food?)

# Further Issues

- “Friendliness” is not constant over time.
- Cultural bias
- Example: In the US, Indonesia, Vietnam and Malaysia are currently perceived as “unfriendly.” Strong pro-European bias in survey responses.
- Use of goods and national security threats cannot be easily verified without security clearance.
- As economists/social scientists we are trained to judge policies based on their welfare, efficiency, inequality effects. Not based on their implications for national security.

# Short-Term Consequences

- As noted at the beginning, too early to see in data.

- But profound changes in US trade policy (leaving sanctions against Russia aside):
  - National Security Strategy: Explicit about the goal of holding back China using trade as a weapon
  - Several statements by the US Trade Representative declaring the beginning of a new era
  - Drastic export restrictions in semiconductors targeting China
  - Meanwhile: WTO still paralyzed; Tariffs still in place; US absent from negotiations of new trade agreements

# Long-Term Consequences

- Speculative at this point
- Wars (hot or cold) do not contribute to prosperity
  - Even if, as Besley and Persson (2009, 2011) show, they may contribute to higher state capacity
- Inflationary pressures (due to less international competition)
- Likely slowdown of growth; technology adoption; global poverty reduction
  - Models of long-run growth emphasize the importance of population (Kremer 1993)
  - Similarly, Goldberg and Reed (2022) emphasize the role of market size in poverty reduction, especially for smaller countries that need access to international markets. Friendshoring and emphasis on labor and environmental standards may preclude the participation of low-income countries in world markets.
- But also possible that technological innovation, especially in green energy, increases
- More resilience? Perhaps “yes” to geopolitical risk. But not to other shocks.
- Perhaps biggest risk: Eventually → Military Conflict (see pre-belligerence era)

# THANK YOU!